

CONSERVING THE URBAN HOUSING STOCK

A Set of Case Studies

on the Impact of Government Policy

by

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## ABSTRACT

### CONSERVING THE URBAN HOUSING STOCK A Set of Case Studies on the Impact of Government Policy

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In spite of a general increase in housing welfare in the United States and substantial autonomous upgrading of the existing substandard stock during the 1950's, many low income families still have inadequate housing services or pay an undue proportion of income on housing. Direct federal subsidy assistance in market production began to deliver housing in the early 1960's, but has remained a slow, arduous or costly process.

This study attempts to explore the impact of specific federal subsidies to rehabilitation sponsors on the general flow of low income housing services. It focusses on a set of interrelated issues raised by their mode of application: their efficiency in producing more low income housing, their interactions with previous factors governing the delivery of housing services, and their drawbacks. The actual federal tools are remarkably recent, small scale, and slow in implementation; decades will elapse before their full effects become manifest. This thesis uses case studies to get an advance reading of the possible range of their impact.

Deducing the incentives and constraints confronting the various actors with roles in the process serves to generate insights throughout the study. This analytical approach is first applied to the general housing system to develop a functional analysis of the causal factors affecting the flow of housing services, and then applied to each case.

The Boston cases reveal that even in the absence of subsidies, arbitrary and ill-defined regulation of upgrading efforts has come to constrain and raise costs of rehabilitation. These rehabilitation subsidies backed by limited appropriations 1) mask the excessive regulation, 2) legitimize adherence to obsolete codes, practices, and land uses, 3) impose additional regulation upon their recipients, 4) discourage evolution of alternatives for comparison, 5) foster grantsmanship and rivalry instead of joint action towards improved housing services, and 6) fail to provide for subsequent maintenance of the upgraded units. The normal entrepreneurial role in allocating resources towards housing services is shifted to the subsidizers, creating an ongoing dependency for more assistance. A special large scale attempt under exceptional regulations produced more rehabilitated dwellings, but it added relocation hardships without achieving economies of scale in production.

In Rochester, New York, a smaller city with fewer bureaucratic constraints, the same subsidy system manifests analogous drawbacks. An unusual case has evolved in Rochester which suggests that a more productive alternative application of housing subsidies lies in assisting low income families directly and more broadly. The dweller's role in allocating his housing resources among choices has important spillover effects: 1) it induces him to play a more positive role in subsequent maintenance, 2) it disciplines behavior on his part, 3) it identifies shunned areas and obsolete units in the existing stock, and 4) it encourages evolution of alternative market responses. These effects jointly simplify many aspects of the "low-income housing problem."

The analysis by incentives and constraints reveals the special nature of resident ownership and the non-profit sponsor. Resident ownership focusses incentives and rationalizes expenditure of resources through self-interest, and thereby aids in conserving marginal portions of the existing stock. Non-profit sponsors, on the other hand, are likely to be inefficient. When the profit incentive is removed, their entrepreneurial initiative is weakened and they become particularly susceptible to the distorting impact of the federal subsidies.

In summary this study furnishes arguments supporting a system of general housing allowances, coupled with regulation by a separate agency, in place of the present system of narrower multiple subsidies and compound regulation of housing producers. It outlines such a housing allowance system. In addition this study suggests that resident ownership merits special support. It offers a modification of the present system of homeownership subsidies to reach the low-income sector. Finally it stresses the need for more responsive dweller education, and outlines how this need might be met.

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## PART ONE - CONCEPTUAL FRAMEWORK

### CHAPTER I - INTRODUCTION

Public policy has shown several decades of concern about the production of adequate and decent housing to meet low income needs. Maintaining and managing existing housing in the low income market is rapidly emerging as a separate critical problem scarcely recognized in public policy today. The interrelationship between production and maintenance must be analyzed because they reinforce each other. Certain modes of production discourage maintenance; maintenance deferred hastens decline of the existing stock, in turn exerting additional pressure on production. Our purpose is to begin to explore the interrelationship between producing housing and conserving it, to maximize net benefits to the low income sector.

This study assumes that housing services in the general housing system are delivered in response to housing demand initiated by the dwellers. In addition to the provision of adequate space and shelter, housing services are presumed to include heat, light, sanitation, hot water, and a range of other services. Where incentives are inadequate or constraints too great, housing services become qualitatively restricted. This study further assumes that the low income sector has insufficient resources to cover the cost of adequate housing services. Under rental tenure this situation is compounded by distrust between tenant and landlord, between one landlord and another, leading to underinvestment on the part of each and sometimes to the premature destruction of basically sound housing.

Limited federal subsidies have been made available to counter this resource deficiency. This study focusses on a set of issues connected with the mode of application of specific federal subsidies to produce standard housing through rehabilitation.

- I. Are these subsidies efficient in producing more standard housing? In other words, are they producing more housing per dollar than conceivable alternatives?
- II. How do the subsidies interact with the forces that governed the delivery of housing services in their absence? Do the subsidies complement pre-existing incentives or reduce pre-existing constraints to stimulate an increased flow of housing services?
- III. Subsidies are generally used to distort market operations towards desired ends. Do these subsidies have drawbacks that have been overlooked, and if so, how might they be overcome?

Direct evidence on the pre-existing incentives and constraints affecting general maintenance is hard to obtain. It involves a multiplicity of operations, each engaging many actors. Each actor, in turn, leaves only a fragmentary record of his transactions. Outsiders can only assume that housing decline is evidence of insufficient incentives, and further, that reclaiming marginal areas would be easier than more severely blighted areas.

A number of sponsored rehabilitation efforts, however, are open to public view. Four are presented here for examination in detail. These efforts, conducted in declining areas where net incentives spurring delivery of housing services are deficient in varying degrees, afford some insights into the underlying reasons why these were not maintained. These insights in turn suggest remedial measures to halt decline in marginal areas presently threatened. This is related to the efficiency of subsidies in producing standard housing.

These rehabilitation cases also enable evaluation of how various federal programs and subsidies integrate with the pre-existing incentives and constraints yielding evidence on interactions. These subsidies are assumed to be pump-priming in nature, to restore the flow of housing services. In the examination of these rehabilitation attempts, the effects of the production subsidies upon the behavior of suppliers and others are stressed to gain a preliminary assessment of the subsequent outlook for conserving the resulting dwellings. In other words, we are interested in the multiplier effects and the spillover effects of the subsidies upon other developers, sponsors, owners, and tenants. Absence of multiplier effects or negative spillovers are considered drawbacks.

The four cases are serially examined in light of the questions raised above. In each, the analytical method consists of interpreting the perceived incentives and constraints upon the actors engaged and affected by the process.

In conclusion, this study outlines three policy recommendations for federal incentives which would significantly improve the efficient delivery of housing services in the long run. We assume, and encounter supporting evidence in the

study, that presently marginal areas are more appropriate for this than the more severely blighted context in which some of the cases are found.

Chapter II presents the necessary background information, identifies assumptions, and develops the conceptual framework for interpreting the cases. Incentives-constraints is the analytical tool used to generate insights. Applying it to the general housing system serves to develop a functional analysis of the housing process. In subsequent chapters these assumptions about the process in the sound stock are applied to the cases in declining areas to draw inferences about the impact of the government programs under examination.

Part Two focusses on the development of the rehabilitation process in Boston.

Chapter III. The case of King-Bison presents evidence of recent difficulties encountered by small scale entrepreneurs in rehabilitating dwellings in declining areas without subsidies. It serves to construct a "before" picture and suggests market interventions required of public policy to restore the upgrading process. The incentives are limited and the constraints overwhelming. Excessive regulation emerges as a significant factor more discouraging to the unwary than on-site reconstruction costs.

Chapter IV focusses on the impact of federal subsidies to redevelopers. The case of South End Community Development, Inc. (SECD) is selected to represent the non-profit housing sponsors in Boston who are attempting rehabilitation



with various subsidies. SECD illustrates a carefully reasoned effort, utilizing all available subsidies. This sophisticated venture reveals the extent of the "web of constraints" upon rehab, and that the time and effort costs of gaining the subsidies just about offset their value.

The Boston Rehabilitation Program (BURP) was designed by policy-makers to overcome some of the drawbacks of small scale rehabilitation. Redevelopers were carefully selected for competence. The case serves to demonstrate the impact of much larger scale intervention in the production process through specially granted incentives and waiver of normal processing constraints. The incentives exceeded constraints for the selected redevelopers, producing a burst of rehabilitation but no real cost breakthrough. The disincentives upon others than the selected redevelopers and failure to consider subsequent maintenance problems discourages a local repetition of the BURP approach without major modifications.

Chapter V serves to summarize the trends brought to light in the examination of the Boston rehab cases. In parts of the general housing market, the incentives to maintain and upgrade are lacking or too diffuse and insufficient to produce private rehabilitation on a chain reaction basis. Too many constraints already discourage upgrading the housing unit. The application of carefully regulated subsidies to selected, isolated suppliers merely compounds them. The role of the entrepreneur in housing conservation is overlooked, and the need to provide ongoing maintenance emerges as critical.

Boston offered no cases dealing with these critical deficiencies. Part Three, Chapter VI presents an alternative model of housing rehabilitation, involving I-5

the dweller, to result in self-sustaining maintenance. The existence of a promising case in Rochester, New York, coping with some of these long range problems is worthy of inclusion in spite of its location in a separate context.

The case of Better Rochester Living is contrasted with other low income housing efforts in Rochester, New York. This case can serve as a benchmark for efficient subsidization in rehabilitating run-down houses, and it establishes that under appropriately structured incentives and guidance, low income dwellers can play the entrepreneurial role in conserving their own dwellings. Home ownership acts as incentive to families in the program. Even here the present subsidies have drawbacks. The incentives to the non-profit sponsor are less evident, limiting broader application of the Better Rochester Living approach.

Part Four, Chapter VII summarizes the case evidence in relation to the issues posed above and then considers some potential policy changes in the application of subsidies to overcome the drawbacks in the present system. The advantages of resource allocation in self-interest are evaluated. The differences between narrow and broad subsidies to the supply or demand side are qualitatively examined. The need for dweller education and ways integrating it within the rehabilitation process are explored. The technique of analyzing incentives and constraints confronting the actors in the cases led to the conclusions. It also serves to generate some illustrative policy recommendations for assisting low income families to obtain improved housing services from the existing stock. The analytical method is applicable to any program or decision-making process.

## CHAPTER II - FRAME AND TERMS OF REFERENCE

This chapter attempts to provide the background necessary before examining the individual cases. It consists of four sections, each of which contains contextual information and makes certain assumptions explicit. Ideally these sections would be read concurrently with each other. The case interpretations will bring the separate strands together.

The sections are: A) National and Boston Housing Trends, B) The Role of Public Policy, C) Analysis by Perceived Incentives and Constraints, and D) The Entrepreneurial Role in the General Housing System. Appendix A, Case Studies and Their Methodology, should be regarded as attached to this chapter.

### NATIONAL AND BOSTON HOUSING TRENDS

A brief analysis of housing trends is necessary to grasp the recentness of both publicly assisted rehabilitation and extensive public regulation of the existing stock as strategies to improve housing services for low income families.

#### National Trends

Trends in the condition of the national urban housing stock are difficult to evaluate because of the infrequent, ambiguous, and uncertain nature of the census data.

Based on careful analysis of trends brought to light by the 1960 housing census, Grigsby has ventured to predict that by 1980 substandard housing in the United States will be eliminated.<sup>(1)</sup> Such conclusions must be evaluated in light of expectations and available resources on the part of the dwellers. Frieden assessing the national housing outlook on the basis of various sources, draws his conclusions with more qualifications:

The experience of the 1950's shows considerable progress in improving housing welfare in the United States, but the performance of the housing market was less than satisfactory in some important respects. In urban areas, the improvement that did take place was not sufficient to cope with the growing numbers of Negro families, and in the country at large an increasing number of families at all economic levels were forced to spend more than a reasonable share of their income for rent in order to better their housing conditions.<sup>(2)</sup>

Who remains in substandard housing? Predominantly renters. In metropolitan areas in 1960, 92.4% of the owner-occupied units were in sound condition and 1.4% were classed as dilapidated, whereas only 79.1% of the renter occupied dwelling units were sound and fully 5.0% were dilapidated.<sup>(3)</sup> Rented units made up 41% of the stock inside metropolitan areas. Looked at on the basis of condition 64% of the deteriorating and 71% of the dilapidated units were renter-occupied -- chances were two to one that any substandard unit would be in rental tenure. Even within the same income categories, at each income level there was at least twice as much dilapidated and substantially more deteriorating housing among rented than among owner-occupied units.<sup>(4)</sup> These statistics offer simple correlations but no causal explanations why owners tend to be in better

units. The census data also reveals substantial upgrading of existing units during the 1950's, <sup>(5)</sup> which is difficult to correlate directly with form of tenure.

Clouding this generally optimistic outlook of housing welfare generated by the 1960 housing census is the lack of causal explanations. Perhaps the easier upgrading has been completed, leaving the less tractable units.

In any case a substantial amount of rehabilitation to meet the housing needs of the low income sector is still seen as necessary. The President's Report on National Housing Goals indicates 28.2 million housing units will be needed during the 1967-77 decade. Rehabilitation of nondilapidated substandard dwellings is to account for 3.7 million units. <sup>(6)</sup> The rehabilitation of 2.0 million, or more than half of these, is to be achieved with public assistance. We assume this is to occur in the metropolitan areas.

### Boston Trends

The General Plan for the City of Boston, 1965/1975, calls for private and publicly assisted rehabilitation of some 32,000 units alongside construction of 37,000 new housing units to replace some 29,000 dilapidated or deteriorating units. <sup>(7)</sup> It seems doubtful that these targets are going to be met. More recent figures are only available in urban renewal areas. Here, since the beginning of renewal in Boston, 5,616 units had either been rehabilitated, were being rehabilitated or had been financially committed as of 1969. <sup>(8)</sup>

These figures acquire more meaning in context from the 1950's. The data from the 1950's revealed that even within the city of Boston a substantial amount

of autonomous upgrading occurred. Brigham estimated that in the City of Boston between 1950 and 1960 up to 19,800 units were upgraded from substandard to standard (in a 1960 housing stock of approximately 238,000 units). He also found that 73,200 permits for improvements to existing structures were issued, which can be taken as evidence of further upgrading. Brigham concludes that most of these repairs incurred modest cost for the owners, and generally did not result in sharp rent increases.<sup>(9)</sup>

Whether this trend continued will be unclear until the 1970 housing census becomes available. The record since 1960 remains more speculative. The general impression is that unassisted upgrading diminished severely and that assisted rehabilitation was an arduous process. Recently spiraling rents, units going into abandonment, and the push for rent control suggests that housing progress is considerably more difficult in this decade.

By 1969 a housing task force stated "The failure in this city to build an adequate supply of housing is clear even to the casual observer." Investigating the failure, the Citizens Housing and Planning Association (CHPA) task force found a correlation between little action, high public costs, and "the complicated network of city agencies working at various levels of efficiency and enthusiasm, which affect private and public housing and management."<sup>(10)</sup> Their report, To Rebuild a City, makes particular mention of the high rehabilitation costs under the Boston Rehabilitation Program and the South End Community Development, Inc. demonstration in the South End. To place progress of publicly assisted rehabilitation in context, the report stresses that while Boston needs the equivalent of a BURP a

year to approach the norms of The General Plan, the exceptional circumstances surrounding BURP render its quick repetition unlikely.

Autonomous upgrading may be quietly proceeding, to be revealed by the 1970 housing census, but this seems doubtful.<sup>(11)</sup> If there is little action it is possible the easier units for upgrading were completed during the 1950's. But the correlation noted by CHPA between little action and too many regulators may also be a causal one, affecting autonomous upgrading. If the private upgrading of up to 19,800 units to standard condition during the fifties was in some way discouraged by publicly assisted upgrading of less than 10,000 units at much greater expense, then it is a serious matter.

As background to the cases, the recent proliferation of agencies in Boston whose functions touch housing is important. The seventeen found by CHPA in 1969 are:<sup>(12)</sup>

- \* The Assessing Department, which fixes the value of property to be taxed by the city.
- \* The Back Bay Architectural Commission and the Beacon Hill Architectural Commission, which regulate exterior changes in the city's two historic districts.
- \* The Board of Appeal, which can grant variances from the city's building code and zoning ordinance.
- \* The Boston Housing Authority, which has charge of constructing and maintaining public housing in Boston and administers the federal leased housing program.
- \* The Licensing Board, which grants permits for lodging houses.
- \* The Office of Public Services, a staff agency which carries out a line function in administering the little city halls. The little city halls are fast becoming an efficient collector of complaints about housing and other city services. Moreover, OPS is carrying out management studies of department services, including those departments which affect housing.
- \* The Public Facilities Department, an agency with broad powers including the responsibility for construction of public facilities other than schools, and the preparation of a long-term capital improvements program and an annual capital budget for the city.

- \* The Boston Redevelopment Authority, which is the city's general planning arm and renewal agent.
- \* The Building Department, which regulates construction, rehabilitation and demolition of buildings through the granting of permits. The Building Code is administered here.
- \* The Fire Department's Fire Prevention Division, which administers the Fire Code through its inspection procedures.
- \* The Health and Hospitals Department's Environmental Sanitation Section, which carries out inspections in administering health regulations.
- \* The Housing Inspection Department, which administers the State Sanitary Code through the inspection of housing.
- \* The Public Improvement Commission, which has jurisdiction over the laying out, alteration and relocation of streets, the installation of sewers, water mains and sidewalks, and the betterment assessments levied against homeowners for improvements.
- \* The Public Works Department, which has general jurisdiction over the maintenance of streets, sewer and water lines and street lighting, as well as the removal of trash and garbage, snow removal and street cleaning.
- \* The Real Property Department's Property Division, which is responsible for foreclosed properties.
- \* The Zoning Commission, which has jurisdiction over the city's zoning ordinance.

This many regulatory agencies constitute one way to try to safeguard the housing stock. The next section presents a broader view of the potential of public policy.



## THE ROLE OF PUBLIC POLICY

Understanding that the intention of public intervention is to improve the operation of the market helps to clarify the purpose and potential role subsidies could play.

Schaaf, in his ground-breaking analysis of urban renewal, states:

The role of public policy is to bring about renewal in situations where it would not otherwise occur. Belief in the motivating power of the profit incentive leads us to presume as a general rule that privately initiated renewal will be forthcoming whenever profitable circumstances exist and that such circumstances are not present if public implementation is necessary. If renewal is to be accomplished in situations where it would not otherwise occur, changes in the variables affecting the private investment decision are required. Such changes are the function of the various public policies that have been devised in the urban renewal field. <sup>(13)</sup>

The problem confronting public policy makers consists of determining which variables are amenable to change, and how productive responses resulting from their alternation are likely to be. Broadly speaking, the factors promoting better housing can be grouped as either positive or negative, as incentives for doing "right" versus constraints or sanctions against doing "wrong." On the positive side, are the "do's" of tax incentives, depreciation write-off, the enabling of credit, of insurance, and of interest subsidies. As Haar points out, <sup>(14)</sup> these supports all tend to emanate from the federal level. On the other hand, the sanctions, the "don'ts," exercised through permits, codes, and inspections, by code enforcement, zoning and legal occupancy law -- are found on the local level. Working together, these are aimed at safeguarding the quality of the housing stock.

The large number of local regulatory agencies in Boston has already been mentioned above. The background of federal incentives is important as well.

Since the 1930's there had been public housing, but the idea of correcting market deficiencies in the housing system as Schaaf advocates, began with the Housing Act of 1949, which enables direct intervention and subsidies in areas designated by local renewal authorities with the advice and consent of the federal government. This took the form of clearance by eminent domain and land value write-down. Under the Housing Act of 1954 the approach was broadened to include subsidized area improvements and liberalized financing. The federal government would absorb two-thirds the cost of public environmental improvements in the designated renewal area -- landscaping, recreational and educational facilities, maintenance and protective services, limited replanning and spot clearance, etc. -- and would extend mortgage insurance under section 220. The "carrot" of area improvements and liberal financing, coupled with the "stick" of code enforcement were to stimulate renewal. In the sixties the tools diversified. Of particular interest are below market interest rate mortgages to non-profit and limited dividend sponsors, and outright grants for certain actions by dwellers of limited income.

Before the Housing Acts, decisions between rehabilitation, new construction, and inaction were left to the consumer-supplier market. With the Housing Acts, determination of what was desired in urban renewal areas shifted to public agencies, who found (and sought) little economic guidance on questions of rehabilitation vs. new construction. They were wide open to the enthusiasm for

building new. By the end of the fifties, local opposition generated by vacant cleared sites with little redevelopment forced a reconsideration, which led to a similarly unfounded endorsement of rehabilitation. Now experience is tempering that as well, revealing that the problems are considerably more serious. Significantly, the policy makers have few guideposts, aside from political popularity of their strategies, on which to base their decisions. Few economists have been able to help them.

Rothenberg offers an interesting analysis to guide choice between redevelopment (building new) and rehabilitation.<sup>(15)</sup> His analysis points out that in making this choice there is insufficient feedback from the "insiders" to the "outsiders" -- from the dwellers to the planners and public policy makers. Such feedback is vital in shaping policy variables to stimulate the missing private investment.

There are broader possible changes within the realm of public policy which are just beginning to come under consideration. Housing subsidies to date have been relatively restricted to the supply side. These restrictions have been thought necessary to assure that benefits would flow to specific income groups and to avoid inflationary impact. Easing them would provide advantages and incur drawbacks that require further analysis. Direct income assistance to low-income households is receiving increasing attention, but its benefits and drawbacks also require study. However, let us note some income assistance possibilities, ranging from broad to relatively restricted:

1. Income maintenance and resource redistribution schemes in which households can allocate the benefits as they please.
2. Housing allowance programs whose benefits are confined to purchasing housing services, but which households can allocate within the general housing market.
3. Restricted housing allowances, in which household allocation is regulated, for example, to assure that selection is made only from standard units.
4. Leased housing in which a household selects housing in the private market, but the public agency arranges payment on its behalf. (16)

Present regulatory efforts in Boston may be ill-conceived, but measures regulating the delivery of housing services are necessary. The present situation of insufficient resources hampers application of even reasonable regulations. Income assistance measures would offset this but would need to be accompanied by revised and perhaps graduated standards. Such code revisions are necessary and overdue, but beyond the scope of this study.

#### ANALYSIS BY PERCEIVED INCENTIVES AND CONSTRAINTS

This study assumes that transactions resulting in the delivery of housing services are governed by perceived incentives and constraints. This methodology furnishes insights to increase predisposition towards action. In the cases, the introduction of subsidies and their impact on efficiency will be evaluated in this light.

### Incentives and Constraints

Incentives constitute an exchange of resources which an actor perceives as advantageous to himself. The resources exchanged, one for another, include labor, money, time, know-how, influence, and psychological well-being. Constraints are perceived by each actor in terms of the diminution of the resources resulting from the transaction. These resources are loosely interrelated to one another, although each individual uses different rates of substitution. All are resources that can be acquired, pyramided, invested, capitalized, spent, squandered and lost, much like money. They are exchanged in informal markets, in which actors trade to increase their share. We assume an actor acts when incentives exceed constraints, or loosely speaking, when benefits exceed costs to him.

Our analytic method further assumes that action occurs until perceived incentives just balance constraints. Actions are undertaken because the anticipated advantages derived from doing so just offset the contingent costs; the economic concept "marginal revenue equals marginal cost" is an illustrative example.

Employing the concept of marginality, increased action would follow from increasing the perceived incentives or reducing the perceived constraints. It is up to policy makers to determine which is easier to achieve.

Of course, altering the perceived incentives may have repercussions when the incentive is perceived by others as modified. This is in the nature of "markets." Note we can alter the incentive or the way it is perceived by the actor, however.

In the imperfect market, where actions are disjointed,<sup>(17)</sup> there are further complicating effects, analogous to the difference between starting friction and sliding friction. A process under way often takes fewer incentives to sustain it than were required to start it. This suggests that to sustain processes still operating in marginal areas requires fewer resources than to restore processes that have ceased in declined areas.

### Operations, Actors and Their Interdependence

The many activities carried out in delivering housing services comprise a discrete set of operations. Such operations must be executed to maintain, rehabilitate, or restore housing units. While the specifically required operations differ from case to case, all operations have common aspects.

Any given operation requires effort and time in its execution and engages actors interlinked in specific roles, who "do" the operation and "get something out of it." External to each operation are a set of incentives and constraints upon its execution. The incentives spur the actors on, while the constraints govern and channel the way their efforts are expended. The way in which each actor does his job is governed in part by external constraints -- space, cost and time limitations, availability of materials, relevant codes and practices, etc. But other constraints involve the perceptions of each actor and result from the interdependence of their various roles. Cultural forces, work practices, and the interaction of personalities all affect the outcome of the operation.

Each operation can be analyzed by hypothesizing "What's in it" for each actor. Each expects to be paid for his efforts in some currency, including but not limited to money, influence, prestige, or psychological well-being. In a given operation, each actor faces choices including the choice to do nothing or withdraw. He bargains with others to reach the choice that gives him the best return for invested effort. As each actor does this for his own position, a sort of collective bargaining results, whose outcome resembles Simon's "satisficing."<sup>(18)</sup> Any actor pushed to the limit where he sees "nothing in it for him" ceases to play a role in the operation. This study explicitly assumes this is where processes maintaining housing frequently break down.

This analytical approach proves nothing; it simply suggests ways to bring the actors in the operation into agreement. In situations of inaction, this is achieved by altering the perceived pay-offs of the withholding actors. The method lies in discerning how each actor interprets external incentives and constraints into benefits and costs to himself. Techniques of persuasion are merely forms of altering any actor's pay-off matrix so that alternatives acceptable to him overlap with alternatives acceptable to the others.

To express this graphically through Venn diagrams, consider this to represent the set of outcomes of a joint undertaking acceptable to Actor A:

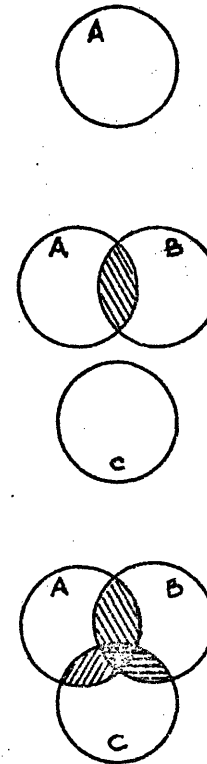
Among several actors, the following diagram suggests that there is shared interest in some outcomes by actors A and B, but no overlap with the interests of actor C, resulting in inaction:

To execute the operation, an overlap in interests must be found, and the commonly acceptable outcome will be found in the common ground:

From this we can deduce 1) that common interests among different actors are likely to help shape commonly acceptable outcomes; 2) as the number of actors increases (other things being equal) the likelihood of commonly acceptable outcomes existing at the outset diminishes; and 3) that the effort required to develop a common ground will increase with the number of actors.

In the market processes a perceived net advantage by one actor is spread through bargaining -- the sharing of the advantage through buying and selling in interpersonal transactions. When different forms of resources are present, the manner of achieving coordination becomes critical. When harmonious goals govern, coordination is easy and outcomes can be found with relative efficiency; but when

Fig. II.C.1. Venn Diagram of Outcomes Preferred by Actors





goals conflict, the difficulties of coordination increase. Politics frequently requires the blurring of goals to build an enabling coalition. Paradoxically, if the blurred goals mask conflict, producing action becomes an extremely delicate process of manipulating perceptions. Inaction, which appears to harm the least, becomes an increasingly likely choice.

This study explicitly assumes that in the absence of a shared goal, processes calling for more actors increase the likelihood of conflicting interests, and thereby the time and effort required to produce. Thus the efficiency is reduced and inaction is a frequent outcome.

Goal conflict is not the only cause of inaction. Unrealistic perception of possible alternatives can also produce this result. Davis develops a market illustration of this <sup>(19)</sup> in a hypothetical case of two adjacent property owners,  $A_1$  and  $A_2$ . Each monitors the percent return on his invested capital. Each separately decides whether to invest in maintenance, knowing that the adjacent owner would get a windfall benefit from his investment through "neighborhood effects."

The matrix, Figure II.C.2, displays the percent return to each owner for the four possible perceived outcomes, as well as the average return for this society of two:

Fig. II.C.2: Percent Return to Actor by Outcome

	$O_1$ both invest	$O_2$ $A_1$ invests	$O_3$ $A_2$ invests	$O_4$ neither invests
Owner $A_1$	.07	.03	.10	.04
Owner $A_2$	.07	.10	.03	.04
Society average	.07	.065	.065	.04

In this situation,  $A_1$  gets his best return from Outcome 3 when only  $A_2$  invests.  $A_2$ , similarly, chooses Outcome 2. In fact, the selected outcomes are incompatible, so Outcome 4 results. Both, or "society" would have been better off through coordination, selecting Outcome 1.

Davis' market illustration is relatively simple because the incentive of higher monetary yield is automatically shared. Where resources in multiple forms are involved, as in politics, achieving coordination and making realistic appraisal of possible outcomes are rendered even more difficult.

#### THE ENTREPRENEURIAL ROLE IN THE GENERAL HOUSING SYSTEM

To detect distortions and drawbacks produced by the introduction of subsidies, we must be explicit about pre-existing incentives and constraints governing delivery of housing services.

This section firstly links clarity of incentives to mode of tenure in the general housing system, then offers some operational definitions, and finally makes some specific assumptions about maintenance in the general housing system, when resources and understanding are adequate. These enable a better understanding of what results when resources and entrepreneurial activities are restricted.

### Mode of Tenure

This study assumes that dwellers normally initiate a demand for housing services in a market. Various entrepreneurs respond with offers to supply housing services in ways most advantageous to themselves. From these each household selects that bundle of housing services that best fits its needs and means.

Each selection has many components, broadly including neighborhood services and labor intensive services, <sup>(20)</sup> in addition to services that come directly from the physical housing stock. These services from the stock are not spontaneous but only flow as operating expenditures are paid to cover their release. The housing stock is simply a physical facility able to render services.

It is usually in the best interests of the entrepreneur providing the services from the housing stock to maintain his facility in good working order, but it naturally ages, declining in appeal. In addition the entrepreneur willingly alters the facility when he sees a way of improving the return on it to himself.

As housing demand alters, entrepreneurs attempt to modify the portions of the stock that offer the best return to meet the new demand. Haltingly the stock shifts through new additions, conversions, mergers, and elimination of obsolete units. This process of responding is governed by perceived incentives and constraints, wherein countless actors attempt to maximize the return on the effort and resources they invest. (21)

The process is most evident in new additions to the stock. Through occupancy rates, expenditure patterns and preference surveys, suppliers can identify gaps in the existing housing market. From prior experience, supply costs and bureaucratic constraints are reasonably well-known. Incentives and constraints can easily be translated into monetary terms and the net differential maximized.

These relatively explicit actions play only a minor role in the shifting housing market. At any given time, 97% of the stock is existing. While the incentives to modify it are similar, assessing the constraints is more difficult. The fixed location and layout of the existing stock inhibit change. The construction process contains more uncertainties (but not necessarily higher costs) and the surrounding bureaucracy is more encumbered with ambiguously updated codes, erratic enforcement, inconsistent zoning due to variances, etc.

The incentives in the existing owner-occupied and renter-occupied stock are distinctly different, requiring separate treatment.

The owner-occupier supplies housing services to himself, and he is only secondarily interested in investment return on his property. High transaction

costs of changing ownership further encourage him to remain. His mortgage interest and property tax payments are tax deductible. These factors combine to spur him to maintain his property and to oppose vigorously influences that might blight its value. These include dwelling and neighborhood deterioration. If they are too threatening, he moves while he can; if not, he maintains and upgrades his home periodically. He provides many of his own services, including labor-intensive ones that tenants expect from suppliers. For the heavier tasks, he directly summons contractors. As he ages, his long range interest in the property wanes and he may defer maintenance. The incentive to maintain his home is never of uppermost priority. When neighbors improve theirs, he benefits without effort on his part in appreciation of his property value; when he improves his in the absence of parallel efforts on their part, his property may appreciate by less than the cost of the improvements. He is only encouraged to maintain and upgrade his property when his neighbors are doing likewise; otherwise, if his earnings improve, he simply moves out, to a higher status neighborhood.

The absentee owner of renter-occupied stock, on the other hand, is principally motivated by investment return and rent yield, and is consequently much more sensitive to market forces. While his mortgage interest is not tax deductible, his expenses are. Tenants, being relatively free to move, have a short range interest in the dwelling. They count upon the supplier to deliver housing services. Since the owner's satisfaction is not directly related to the state of the building, his actions are governed to a much greater extent by the

market. He expects outlays on improvements to pay back through increased rent-yield within a reasonable period of time. Improvements requested by tenants that fail to meet this test, are foregone. Absentee owners are more likely to sell to realize the appreciation of their property. Owners who can take advantage of accelerated depreciation find themselves encouraged to sell the property after only six to ten years, to repeat the process on another building. This discourages long term improvements, and allows downgrading to begin.

The owner of rental housing is much more sensitive to neighborhood effects than to his own maintenance practices, so that without an active code enforcement program, or interspersed resident owners, whole neighborhoods can go into decline. In spite of these factors, there was substantial autonomous upgrading of the stock in central cities of the United States in the fifties. <sup>(22)</sup>

Blight, this study assumes, is the joint product of insufficient dweller resources with which to demand improved housing services, and the multiple constraints discouraging maintenance in declining areas. Which would be easier to counter is a decision best left to policy makers and the entrepreneurs. The market has indicated that net incentives for adequate housing services are missing, leading to their curtailment. Physical deterioration is simply a visible by-product, but also a contagious one.

### Definitions

At this point, some operational definitions identifying tasks to offset deterioration are required. Explicit mention of restricted resources and

discouraging neighborhood effects will no longer be made. The subsequent analysis of maintenance, restoring, upgrading and rehab operations assumes that adequate resources are made available. This study stresses that there is a clear distinction between the state of a given housing unit and its market value.

Dwelling state we here take to refer to the unit's condition in comparison with the other units in the housing stock. A crude index is furnished by the census definitions of standard, substandard lacking plumbing facilities, and dilapidated. It ignores such factors as location, size, neighborhood, age, even though these may have profound influence on the future state of the dwelling.

Market value, on the other hand, is affected by many factors left out in assessing dwelling state. Taken as the price at which the unit would be traded "from a willing buyer to a willing seller," market value is not only influenced by neighborhood factors, economic policy, and general housing demand, but also by the way each of these in turn is perceived by buyer and seller.

The cost of maintaining and upgrading a dwelling is a function of its prior state; but the incentive to maintain derives from the change in market value as a result of expending the time and effort costs of maintenance. For the time being let us put considerations of incentives for maintaining aside, and focus on the effects of time on dwelling state.

Dwelling state (defined above) can shift with time, but this cannot be simply correlated with change in market value.

Deterioration: without specifying the underlying causes, deterioration is simply the physical decline or decay of a given unit to a lower state. It arises

from a complex range of factors, some of which are steady and incremental, and others which are highly disjointed.

Obsolescence refers to the shift of a given dwelling over time to a relatively lower state due to rising expectations, often codified in standards that have been revised upwards. Obsolescence can be a function of physical layout, or changes in taste, fashion and opportunity as new things become possible. Due to interdependence, it can affect entire areas.

Maintenance is the set of operations which must be executed to offset deterioration, to keep the dwelling unit in a given state.

Upgrading is the set of operations executed to offset obsolescence or improve the dwelling to a higher state. It is useful to try to distinguish between absolute and relative decline, between deterioration and obsolescence. Maintenance offsets the former, upgrading the latter, but operations in the field are frequently hard to class.

Restoration: when maintenance has been neglected for a time, the deficit is called "deferred maintenance." Restoration refers to the set of operations that must be executed to offset this deficit, to bring the dwelling back into an "as was" state.

Rehabilitation is the set of operations executed to both restore and upgrade a dwelling to a higher state. It takes general rising standards into account.

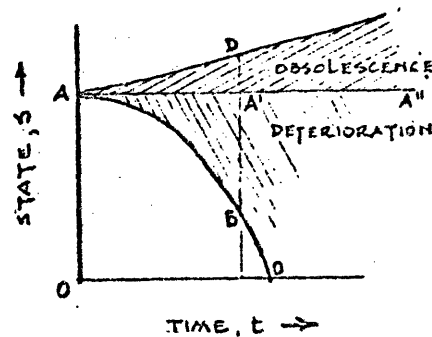
Conservation is the set of operations required to keep the housing stock in a sound, acceptable state. The meaning of "acceptable" is hard to agree upon in the absence of an entirely free market, and consequently the term conservation has



some ambiguity, viewed in terms of changing standards. It is used here loosely in the maintaining and upgrading of the housing stock wherever suitable for future users, thereby touching on all the above sets of operations.

The conceptual interrelationship among these terms can best be shown graphically. The curves are hypothetical. The axes serve to rank dwelling state,  $s$ , against time,  $t$ .

Fig. II.D.1. Interrelationship among Conserving Terms (23)



- Line A-A'' represents a dwelling maintained in a given state over time
- Curve A-B represents deterioration of that dwelling over time
- Curve A-D reflects rising standards, due to taste and technology
- The gap A'-B is deferred maintenance or deterioration
- The distance B-A' reflects the efforts required to restore to original level A
- The gap D-A' reveals obsolescence
- The distance A'-D reflects the efforts required to upgrade the unit
- The distance B-D reflects the efforts required to rehabilitate the unit to upgraded level D

### Maintenance and Upgrading

Whether offsetting maintenance and upgrading are undertaken is normally an entrepreneurial decision, taking neighborhood and economic factors into account in calculating anticipated return. But the magnitude of the task is a function of the state of the unit. Here we develop the assumption that given adequate resources, it is easier to arrest decline early than rebuild later.

Maintenance was defined above as the set of operations which must be executed to keep the dwelling unit in a given state. This requires a feedback system like a thermostat, to indicate when the unit is deteriorating below the state. To develop the thermostat analogy, someone must desire to keep the dwelling at a given temperature. As heat is lost, he must 1) recognize the signs when more heat is called for, 2) be able to select the most expedient ways of restoring the temperature to the previous level, and 3) arrange for heat to be supplied by the appropriate component. Similarly, someone must have the incentive to prevent deterioration. As deterioration occurs, he must 1) be able to recognize the signs, 2) be able to select the necessary conserving operations and 3) arrange for these operations to be executed. To keep the system functioning requires incentives and the informed ability to react appropriately.

This study assumes the dweller normally furnishes the incentives, and the entrepreneur the action. The entrepreneurial role requires and obtains information through the feedback system. Homeownership is a special case that conveniently and efficiently places the two roles in one person.

Deterioration of a dwelling is a much more complex phenomenon than heat loss. Nevertheless, deterioration of a dwelling takes place over time, and can be said to occur at a rate.<sup>(24)</sup> This rate of deterioration is a function of many factors which the entrepreneur monitors. Some are minor and easy to counter; others are serious and difficult to counter. They range from elemental forces physically eroding the unit to attitudes of the occupants.

The constraints on early maintenance are minor. The eroding forces can be of animate as well as inanimate origin. Factors including insects and rodents, as well as moisture, sunlight, and storms can run down an uninhabited house relatively swiftly in the absence of maintenance. Means to counter their effects, however -- such as chemical treatment, or know-how of moisture and dampness control--are readily available to anyone who has the incentive and informed determination to employ them.

Practicality of dwelling design, by easing maintenance tasks, interacts with the likelihood of their being executed. Recent inventions to ease maintenance -- new paints, sidings, and finishes -- can and generally are easily installed. The great majority of existing dwellings can be renovated to serve for a good time longer by replacing the wearing surfaces and fixtures in time.<sup>(25)</sup>

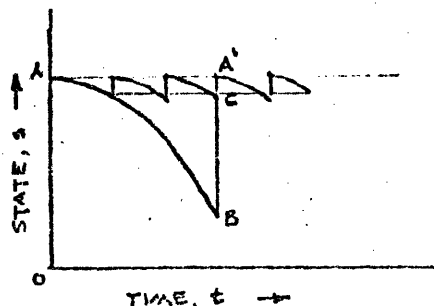
Availability of maintenance services affects the cost and likelihood of their execution. As skilled manpower has become more scarce and costly, neglect and deferral are more likely. Bureaucratic controls, barring use of new technologies, excess regulation by inspectors, and reassessment for higher taxes all loom as perceived constraints, discouraging the timely application of maintenance.

As maintenance is deferred, the constraints increase: what was originally a matter of painting the siding now necessitates its replacement. More skills are called for; permits are required. Reassessment becomes more likely.

In the case of absentee-owners, poor feedback from the dwellers impairs appropriate understanding to act in the situation. When tenants lack incentives or understanding to do their part -- such as disposing of garbage so it does not attract rodents -- or even have abusive living patterns, this in turn actively contributes to deterioration and decline of the neighborhood.<sup>(26)</sup> Throughout the entire system, action can be interpreted as indicating that the individually perceived opportunities exceed the obstacles, and inaction as the reverse.

So far, the reasoning suggests that if resources were available, maintenance would cost least if carried on continuously.<sup>(27)</sup> Strictly speaking, this is not true. There are distinct micro-economies of scale in the way maintenance services are available on the market today. (One arranges to paint the whole exterior of a house at once, not just the side that has suffered in the sun.) We have shown that undue delay results in more serious maintenance. Jointly these processes interact to produce sporadic bursts of maintenance.

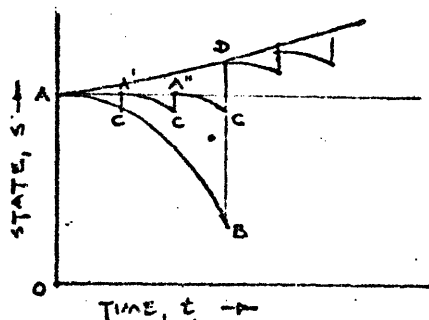
Fig. II.D.2. Typical Maintenance Patterns



This study assumes the most economical maintenance pattern is reflected by the saw-tooth pattern, whereby successive increments of  $C-A'$  are applied to keep the dwelling in a given state. Of course in reality there are daily, monthly, weekly, seasonal, and even more long range maintenance cycles, or "saw-teeth," superimposed on one another. Allowing the dwelling to deteriorate to  $B$  by deferring maintenance means that enough effort ( $B-A'$ ) must be invested to restore the dwelling to its former state,  $A'$ , and that this gap widens with time. (In our example this might entail re-siding the entire building after replacing rotted sills and sheathing where necessary.) The decision whether it is more rational to restore  $B-A'$  in one shot or maintain in successive increments of  $C-A'$  is quite complex and perhaps best made on the spot. <sup>(28)</sup>

Upgrading in response to new possibilities, raised expectations and to counter obsolescence introduces further complexity. Upgrading typically involves new finish materials, new kitchen and/or bathroom fixtures, and even new room uses.

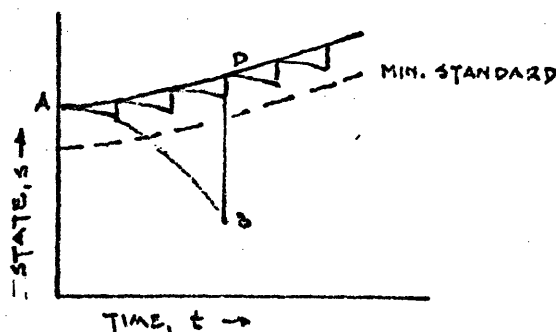
Fig. II.D.3. Typical Upgrading cum Maintenance Patterns



Although A-D reflects continuous upgrading of the dwelling unit, such efforts again tend to be made as a disjointed lump due to market patterns governing their installation. The do-it-yourselfer more closely approximates curve A-D than the homeowner who engages a contractor. Only the owner-occupier experiences the incentives to upgrade fairly directly, as indicated above. The perceived time horizon becomes a critical factor governing upgrading. We here assume, with Schaaf<sup>(29)</sup> that improvements will not be undertaken unless the doer can see their contingent benefits accruing to himself and these discounted benefits exceed their present cost of installation. As mentioned above, declining years, absentee ownership, negative neighborhood factors and lack of money all diminish the perceived incentives to maintain and upgrade. Nevertheless, autonomous upgrading has been an important aspect of our general housing system.

This analysis leads to the hypothesis that if adequate resources and understanding were always present, housing conservation would follow an ascending curve.

Fig. II.D.4. Housing Conservation



To rehabilitate a unit allowed to decline to B by market forces, will entail much more costly operations than if the decline had been arrested earlier.

If this analysis is correct, a public policy objective in housing would be to furnish the necessary carrots and sticks to maintain sufficient units above the rising line of minimum standards, and allow entrepreneurial decisions to identify those that are obsolete or too difficult to conserve. Such a policy would minimize the negative effects and contagion of decline. We have only reasoned this point. The cases furnish supporting evidence, but strict proof remains beyond the scope of this study.

#### Reviewing the Analytical Approach

The process of getting a dwelling unit from the AB curve to the AD curve, upgrading or rehabilitating it from substandard to standard, involves quite a set of operations, whose complexity is related to the width of the gap. We hold that the operations are executed when individually perceived incentives are greater than the constraints upon the actors. This may seem like an inordinately difficult approach towards analyzing housing conservation, but recall that we are basically examining market operations. Market forces handle the complex flow of information for each entrepreneur to interpret.

Attempts to simplify examination of the rehabilitation process into overall benefits and costs are misleading. Benefits are often not shared with the cost bearers. Attempts to reduce strategies to dollars per square foot, or dollars per rehabilitated

x-bedroom apartment are too simplistic for evaluation of the wide variety of housing conservation strategies. As mentioned above, incentives derive from resource exchanges which the actor perceives as opportunities to him. These resources include money, time, influence, power, prestige, and know-how. A trade that one actor views as beneficial, another in his place might view as harmful to his interests. Benefit cost indices attempt to reduce these multiple dimensions to a tractable few so that evaluations can be made. In the realm of public goods <sup>(30)</sup> where there are no market signals, benefit cost analysis provides some guidance, but in sectors where the market is functioning, albeit lamely, the policy maker's task is to improve its operation by reshaping its inputs, and not to simplify it to the point where nuances vital to the participants are lost. Low income feedback on the impact of public programs is weak. Planners and policy makers must counter this by attempting to discern their desires and reactions from other aspects of their behavior. This approach increases the likelihood of developing responsive programs that assist low income families.

We must not forget that the incentive to house himself decently originates with the dweller. The strength of this incentive can be amplified, complemented, overwhelmed, or even squelched by constraints (and incentives) in the hands of policy-makers. In our present urban civilization, owner, dweller, financier, builder, all play highly specialized roles in a system to deliver housing services. Incentives are diffused among these roles to produce action; and constraints -- in part cultural, and in part legally codified -- are to channel this action into



acceptable forms. Somehow this process has broken down. In many areas of our American cities, the quality of housing services is deficient or too costly. The available incentives appear insufficient to produce an adequate flow. Or are the constraints excessive?

FOOTNOTES - CHAPTER II

1. William Grigsby, Housing Markets and Public Policy (Philadelphia: Univ. of Penna. Press, 1963), p. 322.

2. Bernard J. Frieden, "Housing and National Urban Goals," in The Metropolitan Enigma, ed. by James Q. Wilson (Cambridge, Mass.: Harvard Univ. Press, 1968), p. 177.

3. Derived from US Census of Housing: 1960, Vol. II, Part I, p. 1-20, Table B-4.

4. Ibid. See also Jo Anne Newman, "Homeownership for Low-Income People" (unpublished MCP Thesis, M.I.T., 1968), pp. 84-86.

5. Gordon L. Brigham, "The Improvement of Old Housing: A Study of Changes in Boston, 1950-1960," unpublished MCP Thesis, M.I.T., 1963), observes that in six SMSA's there was both substantial upgrading and to a lesser extent downgrading. Boston's trends parallel Chicago, Detroit, Los Angeles, New York and Philadelphia.

6. Report of the President, National Housing Goals, US Government Printing Office, Washington, D.C., January 1969, p. 15. The report points out (p. 5) that the needs are based on data that are inadequate. This may be especially true of data on housing losses during the 1960's.

7. Citizens Housing and Planning Association, To Rebuild a City (Boston: Summer 1969), p. 1, cites these targets from The General Plan for the City of Boston, 1965/1975, adopted in 1965 by the Boston Redevelopment Authority as the official master plan for the city.

8. Ibid., p. 3.

9. Brigham, op. cit.

10. CHPA, op. cit., preface.

11. Boston Redevelopment Authority, "Housing in Boston," 1967, estimated the state of the city housing inventory in November 1966, and found some additions from new construction, mergers and conversions, just to offset demolitions, but suggests that the only improvements in the stock resulted under public assistance. It makes no mention of private upgrading. Progress toward the 40,000 unit target set by the General Plan for 1975 was being made at less than 60 units per year.

12. CHPA, op. cit., p. 5.

13. A.H. Schaaf, "Economic Aspects of Urban Renewal: Theory, Policy and Area Analysis" (Research Report 14, Real Estate Research Program, Institute of Business and Economic Research, University of California, Berkeley, 1960), p. 1.

14. Charles M. Haar, Federal Credit and Private Housing; the Mass Financing Dilemma (N.Y.: McGraw Hill, 1960).

15. Jerome Rothenberg, "The Optimal Mix between Redevelopment and Rehabilitation," unpublished Xerox manuscript, 1969, p. 41.

16. Most public housing agencies do not administer the program this way. Generally the agency selects units and places the tenants, making the assistance a housing supply subsidy.

17. Braybrooke and Lindblom, in A Strategy for Decision (N.Y.: Free Press of Glencoe, 1963), develop the concept of "disjointed incrementalism" in examining these phenomena.

18. Herbert Simon, "Theories of Decision-Making in Economics and Behavioral Sciences," in American Economic Review, Vol. XLIX (June 1959).

19. See Davis and Whinston, "Economic Problems in Urban Renewal," in Phelps, Private Wants and Public Needs, pp. 140-145 for a fuller statement of the argument.

20. Neighborhood services include such things as roads, parking, utility hook-ups, access to transportation, schools, health care, public facilities, etc.

Labor intensive services may include cleaning, trash and snow removal, policing of premises, and are often self-provided by resident owners.

21. This decision-making process is elegantly expressed in Little, A.D. Inc., Model of the San Francisco Housing Market. (SF CRP Tech Paper No. 8, January 1966) wherein the concept of "rent-yield pressure" is developed.

22. See discussion of housing trends, above, section II A. Also, G. Brigham, op. cit.

23. It is important to note that these interrelationships are conceptual. A unit that has declined to B over time may be badly dilapidated, but still serve as housing. When the unit crosses the t-axis, it is abandoned. In "real life" obsolescence and deterioration are only components in market value, alongside inflationary and neighborhood effects and housing demand forces.

24. A.D. Little, Inc. Models for Condition Aging of Residential Structures (San Francisco CRP Technical Paper #2, Nov. 1964), explicitly relates rates and states.

25. In the general housing stock this occurs automatically when the incentives exceed the constraints, Schaaf, op. cit., p. 1.

26. Elliot Liebow, Tally's Corner (Little, Brown & Co., 1967), presents the most persuasive case for this argument of system induced lower class behavior.

27. Harvard University's policy of continually cleaning, painting, patching and fixing by its in-house maintenance staff suggest that continual maintenance is a wise policy for the extremely long-term owner. It must be distinguished from upgrading, which Harvard does once a generation to each building.

28. The homeowner, desiring to keep his unit indefinitely, makes these decisions all the time. He gets the best information he can, discounts the value of his future earnings against presumed costs of delay, and acts accordingly. In sound suburban areas, the pattern of his actions is more like the sawtooth.

29. Schaaf, op. cit., p. 1.

30. A. Maas, et al., Design of Water Resource Systems (Cambridge: Harvard Univ. Press, 1962).

## PART TWO - EVOLUTION OF THE REHABILITATION PROCESS IN BOSTON

In Part One it was reasoned that perceived incentives and constraints shape housing markets both locationally and economically. Part Two attempts to examine some cases in inner-city Boston in this light, to see what this approach reveals about the interplay of various forces affecting this particular declining submarket, to reach a better understanding of their interaction. From these cases we may deduce how government policy could act to remove constraints or improve incentives in the marginal portions of the housing stock. This analysis assumes that in the general housing turnover process there is a watershed where the downgrading forces are far greater than those associated with filtration in the rest of the market, presently creating a pool where unmaintained houses and people are trapped. Our analytical approach may give us some new insights into the causes.

Chapter III discusses unsubsidized rehabilitation, taking King-Bison as a representative case.

Chapter IV explores the impact of federal subsidies upon the pre-existing system.

CHAPTER III - THE IMPACT OF NEGATIVE CONTROLS ON AUTONOMOUS  
UPGRADING

THE UNWARY REHABILITATORS

If individual dwellers and local groups are going to continue to play a role in the process of conserving housing, it is fruitful to scrutinize the present interactions in settings which come as close as possible to revealing the atomistic aspects of the market. Ideally, one should survey every dwelling and examine the contingent maintenance interactions, or lack thereof, but this is impractical. However, the actions of neophytes -- the church-sponsored non-profits, the altruistic housing efforts --- are also revealing, and the actors in these cases are readily accessible and willing to describe their goals and their problems. The behavior of these small-scale rehabilitators is similarly shaped in response to the maze of constraints they face. The interactions between resident owners, absentee landlords, tenants, and the various authorities offer clues to the nature of the housing system, that are obliterated in the cases of the larger interventions.

In 1969 there were close to ten organizations attempting small-scale rehabilitation of housing in Boston's South End and Roxbury neighborhoods. One of these, the King-Bison Company, was incorporated as a profit-making enterprise, but this was to capture potential tax benefits rather than for actual profit. The remainder are non-profit groups. (See Figure IIIA.1., below.)

## FIGURE III.A.1

## Small-Scale Housing Rehabilitation Organizations Working in Boston in 1969

## Discussed here:

Profit group

King-Bison Company  
 Mr. David Bird  
 Mr. George Sommaripa  
 145 Hanover Street  
 Boston, Massachusetts

Non-profit groups

South End Development Corporation  
 Mr. Robert Whittlesey  
 677 Tremont Street  
 Boston, Massachusetts

Housing Innovations Inc.  
 Mr. Denis A. Blackett  
 366a Blue Hill Avenue  
 Roxbury, Massachusetts

source: Rev. Ev Blackman  
 The Commission on  
 Housing  
 United Church of Christ  
 14 Beacon Street  
 Boston, Massachusetts

## Other non-profit groups:

Low-cost Housing  
 Mr. Rudy Waker  
 162 West Concord Street  
 Boston, Massachusetts

Joseph Tuckerman Foundation  
 Rev. Virgil Murdock  
 110 Arlington Street  
 Boston, Massachusetts

Cooperative Metropolitan Ministers  
 Rev. Charles Harper  
 34 Concord Square  
 Boston, Massachusetts

Association for Better Housing, Inc.  
 Rev. Harold Ross Jr.  
 14 Crawford Street  
 Boston, Massachusetts

Massachusetts Housing Inc.  
 538 Massachusetts Avenue  
 Boston, Massachusetts

Afro-American Associates  
 R. Charles Turner  
 12 Morley Street  
 Roxbury, Massachusetts

Trinity Church Foundation  
 Rev. Samuel Tyler  
 Trinity Episcopal Church  
 Copley Square  
 Boston, Massachusetts

I was employed by King-Bison during the summer of 1968 and subsequently served them as consultant. I interviewed the principals in the other organizations -- some in considerable depth -- from which the pattern described in this chapter emerged. Because I worked extensively with King-Bison, I can chronicle the surrounding political process more fully in this instance, but the experiences are simply a typical variant of those encountered by these organizations.

South End Community Development, Inc., headed by Robert Whittlesey, chose a more sophisticated approach embracing various public and private subsidies. The aspects of the system illuminated by the resulting interactions are discussed in Chapter IV, in the case of the Methodical Rehabilitators.

#### General Model of Small-Scale Housing Rehabilitation in Boston

The incentive causing the production of housing normally comes from the dweller. Upgrading is stimulated in the general housing market by the anticipation of increased rent-yield. This incentive is channeled into acceptable forms through the regulatory agencies, whose function is to prevent unhealthy conditions and exploitative actions on the part of property owners.

In contrast to this, many of the small-scale rehabilitators were not motivated for profit. They resulted from the general concern for the City. Many formed around the search for a relevant task. Some started on their own, others were sought out by the BRA<sup>(1)</sup> as vehicles for the execution of particular housing projects, and were talked into undertaking a project. Because of their dedication or commitment, all were generally more willing to attempt the dubious, IIIA-3



to put up with hardship, and to invest time and effort for little return than normal entrepreneurs and owners; on the other hand, they were generally less experienced.

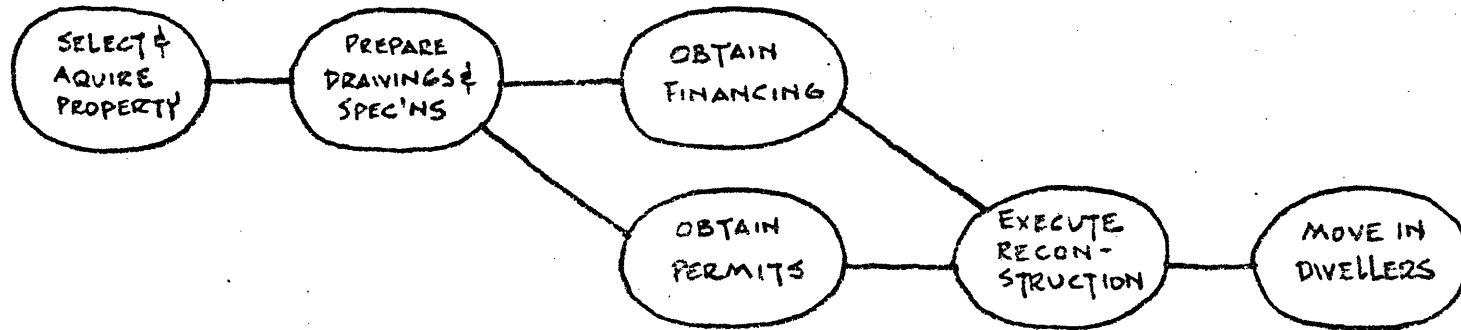
Focussing on the simple goal of merely producing rehabilitated dwellings brings some order to an examination of the multiplicity of small scale rehabilitation efforts. Most of the small efforts of course were directed towards broader goals than mere dwelling rehabilitation, among them: preservation of neighborhood character, historical restoration, resident participation in the process, indigenous skills training, low income home-ownership, or the implementation of construction innovations and new forms of neighborhood community plans. These extras make the efforts less comparable, so we must attempt to hold them in abeyance while we examine the backbone of the rehabilitation process.

No provision for relocation is necessary in the small-scale model because the market accepts the atomistic displacement of dwellers during upgrading. In fact, many sponsors rehabbed vacant units.

Despite the diverging nature of the broader goals, the procedures followed by the small-scale rehabbers are quite similar due to the maze of constraints they must pass through to reach their objectives. The steps in the process of rehabilitating packages of several dwelling units are outlined in a simplified flow chart (Figure IIIA.2.).<sup>(2)</sup>

The rehabilitation sponsor<sup>(3)</sup> trying to restore and upgrade dwelling units finds that the hurdles he must clear to attain his goal present themselves in this sequence, which is difficult for him to alter. Ideally he would like a definite

Fig. III A.2. Small Scale Rehabilitation Process



SMALL SCALE REHABILITATION

rather than a speculative incentive -- he would like to have his financing committed and his tenants or buyers signed up before he begins to acquire units. He might even prefer to be contractor for another owner, one who might take the risk of failing to meet costs off his shoulders, but at present the sponsor bears the risk in these cases of small-scale rehab. Since he is generally dependent upon others for financing the undertaking, he must prepare a fairly explicit statement of what he proposes to do where to win their support of his venture. Before drawing up the plans, stating what he intends to do, he must obtain options on the properties, determining where this is all going to occur. The location is a major determinant of the type of financing he can obtain,<sup>(4)</sup> forcing him to consider well before he takes this first step, but he generally enters the maze here -- by taking options on several buildings.<sup>(5)</sup>

He must prepare plans for these units, thereby discovering two sets of pressures: one set pushes him to "bring it up to code," the other allows him to replicate "as was" if he proposes no changes in use. The first set entails greater concern for fire safety and open space than was customary in the past, calling for sprinklers, firewalls, emergency stair lighting, deconversions, and possibly requiring removal of gutted units, rather than permitting their rehabilitation. To avoid the prohibitive expense of attempting to renovate wood frame buildings to modern standards, he is offered the option of restoring the structure "as was." But this often entails hidden costs too, in forcing him to adhere to obsolete land use patterns.<sup>(6)</sup> The number of units, proposed rent or sales price, layout of typical unit must be decided before financing commitment and building permits can be obtained.

Having proposed and drawn up plans of what he intends to do, the redeveloper is ready to face the major institutional hurdles which shape how he will go about the task. Financing institutions on the one hand, use their own set of rules and guidelines to determine the feasibility of what he proposes to undertake; and the Building Department, on the other, with its codes and zoning rules, also scrutinizes the proposal to determine its fit with the interpretation of the "rules of the game" current in the city bureaucracy. The redeveloper tackles both fronts simultaneously, engaging in a seesawing act. Each bureaucracy insists on being treated seriously, and jealously guards its turf of influence from encroachments. The financiers do not wish to commit money unless they are assured that city bureaucracy will not stall the project; and again, the city bureaucracy "weighs" the sponsor on the basis of his financial backing. Without an adequate backer, the redeveloper's proposals can be stalled for months in "In-Boxes," lacking the push to keep them moving.

The small redeveloper who has cleared all these hurdles, is now set up to begin rebuilding the dwelling units. He now faces more conventional decisions, albeit those which have attracted the most attention in the media. To speed rehabilitation, he can contract out the actual task to specialists. By engaging unionized labor, he hooks up with an established network of relationships, with suppliers of materials, with work forces, that deliver reasonably reliably, at known prices. But in doing so, he may encounter unanticipated costs. For example neighborhood forces may seek indigenous employment from what they view as outside interventionist forces within their territory. Much of the redeveloper's time can be consumed in

necessary public relations or in political skirmishes until his units are reoccupied. During this period the sponsor shoulders the risks of maintaining the stock of houses from destruction. If he is shrewd, vandalism can be kept to petty levels, and he will avoid waking up one morning to find portions of his stock irrevocably destroyed. (7)

Upon completion of the rehabilitation one hurdle remains: choosing the new occupants. The "easiest solution" from his standpoint would be to sell off the package to another specialized in handling these aspects, but such a one is seldom at hand. He finds himself in the role of the midwife who is given the baby. The terms of financing assumed a manner of ultimate disposition of the units (for example, management maintenance by sponsor, or sales to homeowners), but all too frequently, the task of realization still rests on him. The promised rent yield can only be attained through close and watchful management, which he may find himself called upon to provide.

## THE CASE OF KING-BISON DUDLEY STREET PROPERTIES

King-Bison (K-B) has been active in rehabilitation since 1964. (8)

Its principal aim has been to devise ways to obtain a better return on the low income housing dollar, by training indigenous labor in rehabilitation skills and by remaining as benevolent owner of the rehabbed properties in run-down areas. In a sense the company acts as a laboratory, having attempted reconstruction of many types of run-down buildings, from those still occupied but for sale, to gutted shells available from the City for a nominal sum. It has completed close to one hundred dwelling units while training the inexperienced in the necessary skills. King-Bison claims that rehabilitation can provide desirable dwelling units for half the cost of new construction, but this is difficult to prove. Typically, they invest about \$10,000 per multi-bedroom apartment in units acquired for sums ranging from \$0 (plus acquisition red tape) to \$7000. The result is a finished building that is a definite asset to the neighborhood. Their efforts can be classed as autonomous upgrading for rental.

Recently they have been running into trouble with rising costs and on-site vandalism, which relate directly to the extended untenanted period during rehabilitation, which in turn, is a function of bureaucracy.

### King-Bison's Dudley Street Properties

The case of the buildings on Dudley Street on the Roxbury-Dorchester line reveals the impact of the city agency constraints on rehabilitation

particularly well. For this reason, we will explore it closely here. This examination follows the sequence of the simplified model of small-scale housing rehabilitation, but reveals more complexity.

#### Selection and Acquisition of Properties for Rehab

On the basis of its previous rehab endeavors, King-Bison has devised a method of forecasting reconstruction expenditures. These on-site costs can be predicted as a function of the number of rooms, their sizes, the exposures of the building, its general state, and particular problems such as fire damage or strippage by vandals, and the like. They run to a maximum of about \$10,000 in 1969 for a gutted shell four bedroom apartment. In the past King-Bison has had the courage to buy quite a variety of units offered at low prices. The costliness of maintaining and managing scattered site holdings after rehabilitation has pointed them towards clustering, but such a pattern is extremely difficult to achieve in the Boston market without power of eminent domain. (9)

When King-Bison learned of a cluster of twenty-six units on Dudley Street, eleven of which were still occupied, held by only three separate owners, they were interested. These particular buildings are four story brick row houses, built before the turn of the century when three stories of apartments above a little store "were the coming thing." At the time of negotiation for acquisition, June 1968, the five row houses fronting Dudley Street contained one store each in the ground floor units; three still had tenants. (See Fig. IIIB .1.)

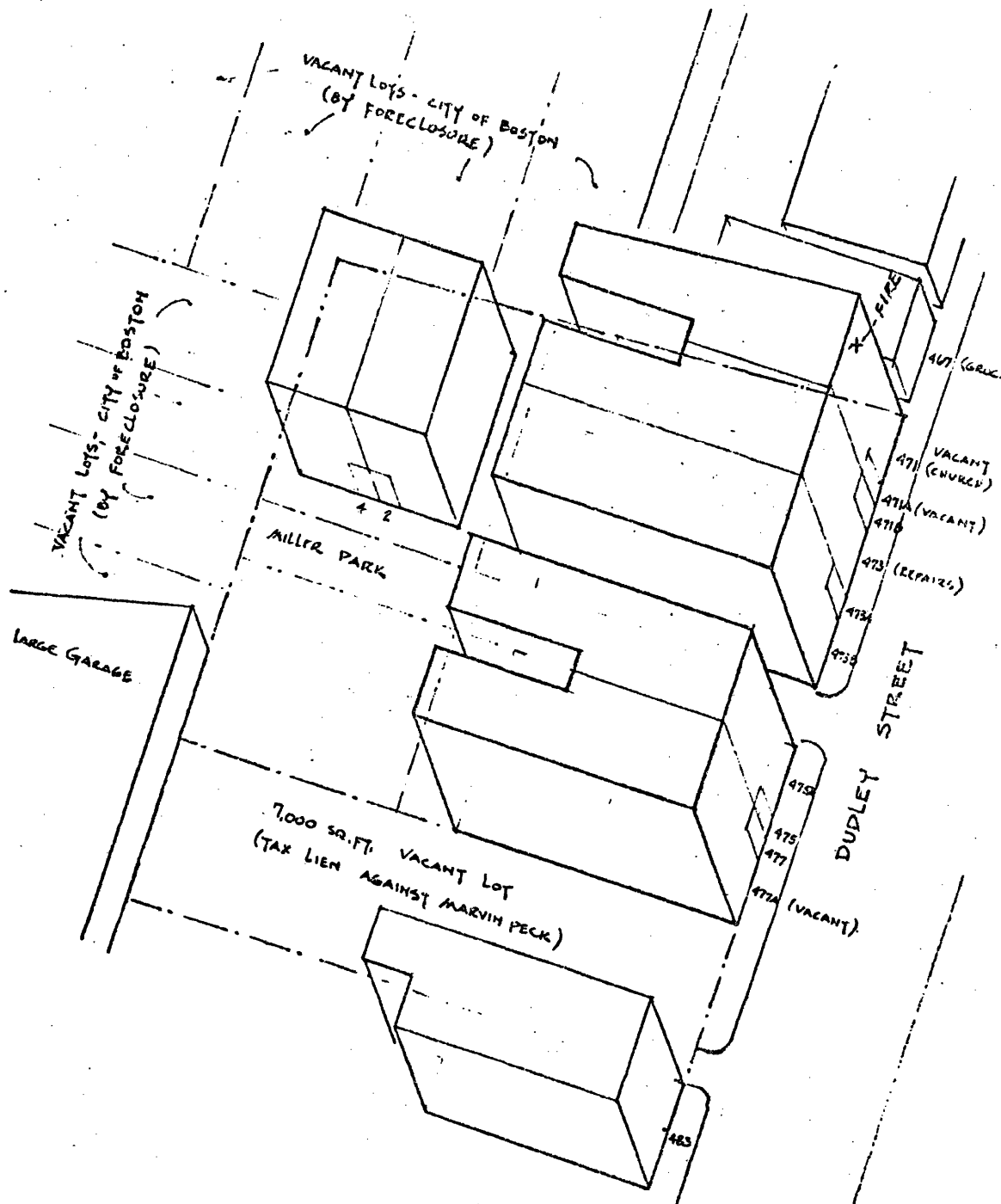
Of the fifteen upstairs units in the row houses, the inside nine were still occupied. The six dwelling units on the ends were vacant and abandoned. A fire in the top-most apartment at #471 in February 1968 did major damage to only one room, but fire-fighting damage coupled with freezing temperatures ruined that arm of the heating system, so that all units in the row house were unoccupied by the end of the month. \$800 in the right time and place could have refinished the fire and water-damaged rooms since nothing structural was affected, but timely action was not taken. As a result, three dwelling units sheltering large families were lost from the housing stock. The vacant units at the other end at #477 bore evidence of a similar history of rapid departure, followed by vandalism.

In the rear, accessible through an incredibly narrow private way called Miller Park, was a gutted three story masonry shell that used to contain six apartments. It now stood in a sea of weed-covered rubble, the result of surrounding demolitions.

The owner of the tenanted building had a rent collector. In return for a \$20 rent reduction, she extracted the rent from the other tenants to have it ready for the regular visit by the owner's agent. She did not know the owner, only knew that his agent came regularly, and that if all the rent monies were in order, her reduced rent would continue. Since this was a necessity, she did a very efficient job and asked few questions. The only way to reach the owner was to wait for the agent and pass information through him. (10)



Fig. III.B.1.



KING-BISON PROPERTIES @ 471-477 DUDLEY ST, 2-4 MILLER PARK

The prices at which these properties changed hands reflect higher inner city costs and the uncertainties of their future. In July 1968 they were transferred for roughly twice their current gross annual rental income, i.e. \$1800 per occupied unit,<sup>(11)</sup> but to most they would be liabilities.

Acquisition was a relatively simple procedure. In retrospect one can speculate that the previous owner probably considered himself extremely fortunate to have concluded such a sale at a time when condemnations were removing other properties in the area.

King-Bison immediately tried to obtain insurance for these properties through their regular agent. At this time, they could not. The second best form of insurance for such properties is to keep them tenanted or occupied. King-Bison endeavored to do this, but word that the apartments were to be rehabilitated scared tenants. They have learned from past experience that rehabilitation means relocation, or extended inconvenience terminating in higher rents. By bending over backwards, King-Bison managed to keep some tenants in the buildings at all times, as quasi-insurance against damage by outsiders.<sup>(12)</sup>

King-Bison initiated procedures with the Corporation Counsel for the Real Property Department of the City of Boston to obtain tax forgiveness on these properties for the period when they were untenanted. They coupled this with a request for assessment after completion such that annual real property taxes to the City would amount to no more than 15% of gross annual rental

income, provided that tenants were low income. Decision on this was placed in limbo, until after completion of the rehabilitation, adding another unknown to the ultimate feasibility of the venture.

### Plans and Permits

The preparation of plans was a complex problem for King-Bison as the conflicting requirements to obtain financing and to obtain building permits were negotiated. Recall that the purpose of this case is not to reveal the incompetence of the redeveloper, but rather the impact of all the hurdles that constrain the small-scale rehabilitator. <sup>(13)</sup>

The John Hancock Life Insurance Company, intending to invest in this effort of King-Bison's, influenced the planning. <sup>(14)</sup> Jointly, the initial design target became thirty-one dwelling units, achievable by converting each of the large, but obsolete stores, into two apartments.

Code and Zoning requirements for type IV buildings in an L-1 zone straddling an H-1 zone were quite different from what in fact existed on the site. Not only the wooden joists and rafters, but the high density of lot coverage (dwelling units/lot area), the fact of a four story building where only three stories were permitted, the inadequate street setback, the lack of usable open space around the building -- all were non-conformities. The status of the private way, Miller Park, added to the confusion. Could its area be included in the calculations? The various officials showed little enthusiasm to grapple with

the intricacies of the case. It is the burden of the applicant to demonstrate that his building intentions are within the spirit of the code. Where cases obviously fall outside the code, the Board of Appeals has jurisdiction within the limits of "conditional use" -- spelled out ambiguously in the code, and really only evident in practice. The Board of Appeals procedure is an uncertain three month process. To maintain schedule within the John Hancock financing commitment, King-Bison decided to apply for permits for those construction tasks permissible without the ruling of the Board of Appeals, then amend these permits subsequently, when the time to rehabilitate the ground floor stores arrived. In this way, work on the existing apartments would not be delayed.

In August 1968 the task of obtaining any sort of permit began. After one or two false starts, it became clear that King-Bison was applying for permits for seven, not three buildings. They had prepared the original applications and drawing for three buildings. The street numbering inspector found that he was unable to allocate the four building numbers, 471, 473, 475, and 477 against the five buildings fronting on Dudley Street. Since he possessed two street maps, which were inconsistent, he clearly felt the problem was beyond him. Instead he recommended examining the files in the legal occupancy division, where cumulative records on each building are stored. Here the confusion was compounded since records were misfiled in the folders indexed by street number. The original permits were executed in 1897, before there were any street numbers -- the buildings were

merely referenced by location between cross streets! The street numbering inspector's dilemma was resolved by surreptitiously proposing how the buildings could be numbered, whereupon he corrected his chart and assigned King-Bison those numbers.

After spending two full man-days in the Building Department and a \$2 fee per building, King-Bison obtained a short form permit, enabling cleanout and wreck-out of the buildings. They began the process filing long form applications for the rehabilitation. It appeared that procedures had just been revised and assigned to the jurisdiction of Mr. Pepicelli, a benevolent, paternal brick mason, proud of his authority. He outlined the process of taking the drawings in triplicate to the Inspector of the Fire Department at Southampton Street for his initials.

Simultaneously, King-Bison obtained a Xerox of a completed application permit for rehabilitation on which the Synopsis of the Proposed Work touched on all the relevant aspects. (15)-

Plans were now revised to show the existing stores remaining as is (for the time being) to obtain the approval of the Inspector in the Fire Department, Lieutenant Sancsta. Unfortunately, Lt. Sancsta was the only one who could initial the drawings, and he had just left for two weeks vacation without designating a substitute. After the two weeks, King-Bison learned that the Inspector broke his leg on vacation and would be unavailable for another ten days. Finally upon his return, revisions to his satisfaction were made on the spot.

"Glass blocks in the basement openings . . . 5/8" sheet rock and emergency IIIB-8

lighting in the public stairs .... " He initialled the drawing and kept one copy of each as predicted by Pepicelli in the Building Department.

Pepicelli was not happy about the mom and pop stores. "This can't be rehabilitation. You better get Martin (the Deputy Building Commissioner) to handle these permits." But when Martin was in, Pepicelli was out. Martin felt it was rehab. <sup>(16)</sup> (See Fig. III B.2., Rehabilitation Permit Breakdown.)

Upon meeting with the Building Commissioner, Thuma, the problem became clear, although not its resolution. The Rehabilitation permit was designed to integrate with the FHA's rapid processing of the BURP program, and was really only available to BURP sponsors. It was a tremendous time saving under the Rehab permit. "Do you realize how we'd look if we had riots in Boston this summer, and 1700 building permits were stalled here?" Clearly the department could not handle that many under conventional procedures. To assuage excessive resentment over the conventional procedures, look-alike efforts were allowed to be processed like BURP. King-Bison had inadvertently fallen into this category. But BURP buildings were specifically chosen so that no zoning and legal occupancy problems could arise. In King-Bison's case, this posed a dilemma. The temporary solution was a messy compromise. Thuma suggested to his deputy, Martin, that permits for rehabilitation of the upstairs apartments be granted under the streamlined \$20 fee arrangement, but that occupancy of the stores be negotiated in the conventional manner. By mid-September King-Bison had permits. Technically it was in a position to

Fig. III B.2.

*Pat Pepicelli*  
 CHIEF BUILDING INSPECTOR  
 F. H. A.

Rehabilitation Permit Breakdown  
 program

- A. File Long Form application with Plans, Synopsis of proposed Electrical, Sprinkler, Plumbing and Gas modifications. Plans to be filed in triplicate.
- B. The Fire Department will see all plans and retain one set before plans are forwarded to Building Department.
- C. A flat fee of \$20.00 per apartment to be paid by either the owner or the developer. The above fee includes Gas, sprinkler, plumbing and electrical permits.

Project Director for the Program is Mr. Leo F. Martin.

The Applicant must be present at the time of the processing of application and plans.

Indicate in Synopsis:

Necessary repairs of Exterior Masonry Walls,  
 Fire Escapes, Gutters, proper connection of  
 roof drains to storm sewers, Chimneys, Incinerators  
 basement floors and boiler rooms.

Indicate by legend on plans.

(a) Existing (b) New Work - Walls to be removed

One hour fire resistive construction

- a. Walls separating apartments
- b. Walls of stair enclosures
- c. Walls of corridors and path of egress
- d. Basement ceilings throughout

State in synopsis or plans 1 3/4" Solid core doors,  
 redecorating prescribed in F.H.A. Rehab Agreement or  
 contract.

*Pat Pepicelli*  
 CHIEF BUILDING INSPECTOR

rehabilitate the buildings as they were in 1897, but permission for the conversion of obsolete ground floor stores into apartments still lay ahead of them. Over two months and several man-weeks were required for even this partial accomplishment, not to mention the costs of being unable to commence rehab shortly after acquisition.

### Change of Occupancy Procedure

Building Commissioner Thuma's June 21, 1968 letter on permit procedures makes quite evident that going to the Board of Appeals is a lengthy, cumbersome process. How cumbersome only became apparent over the next year and a half. (See Fig. III B.3., Building Department Permit Procedures.)

After Fire Department Approval and submission of two sets of structural plans and two certified plot plans, Building Department review begins. Step 4 of this letter indicates that "within ten days" after filing the applicant "should be notified" if his plan does not conform with the Zoning Acts of January 1, 1965, as amended. Next, examination for conformity with Building Law requirements requires ten to thirty working days, depending on complexity. At twenty working days to the month, up to two months may be consumed determining successive reasons for rejecting the application.

With the stated reasons for rejection in hand, the applicant has the right to file an appeal, but "must do so on proper form and within stipulated periods. It usually takes about sixty days after filing to have the case heard by the Board of Appeals."



Short-form applications are designed according to law to allow work to be done of a minor non-structural nature not involving hazards to the public or to the occupants of the building. These are limited to \$500.00 in the first fire district and \$1000.00 elsewhere. Approved short-form applications will result in an immediate permit. Long-form applications, so-called are for other than minor construction or alteration and plans are required. These applications necessarily take longer to be processed. The procedures are as follows:

- (1). For new construction-Approval by the Public Works Department, for sewer, water and street grade is required.
- (2). Fire Department-Approval is required for other than one or two family houses. The Fire Department enforces the provisions of the Fire Prevention Code.
- (3). Two sets of structural plans are required and two plot plans certified by a Massachusetts registered professional engineer or architect.
- (4). Plans must conform to the provisions of the Zoning Acts of 1 January 1955, as amended. You should receive a card within approximately ten working days of filing if your plan does not conform. More complex buildings may take longer and simple designs less.
- (5). After Zoning will come Plan Examination. Should your plan not conform to Building Law requirements, you will receive notice from a Plan Examiner. Depending on complexity this requires ten to thirty working days.
- (6). If your plan fails to conform either to Zoning or Building Law you have the right of appeal to the Board of Appeal which Board, after a hearing, may decide in your favor or not. Access to the Board of Appeals is your right, but you must do so on proper form and within stipulated periods. It usually takes about sixty days after filing to have the case heard by the Board of Appeals.
- (7). Assuming that your plan meets all requirements of Law or that the Board of Appeal has given you a favorable decision a Building Permit will be issued to you. To obtain the permit your application must be signed by the licensed mechanic who is to be in charge of the work.

Assuming that the necessary inspections have been made and completed satisfactorily the inspector will file a "final report" certifying to that effect. You may see this report, and may upon payment of a small fee obtain a copy of it.

Protect yourself before buying property. Check the records of this department for legal occupancy of, and for complaints against, the property you propose to purchase.

Dutifully King-Bison went through the above procedures. They attempted to obtain statements of consent to the proposed plans from the abutters. Since King-Bison was aware that objections principally stemmed from excess density of land coverage, it was willing and eager to buy additional land. It set about finding the abutters to obtain either land or consent.

The Dudley Street site is in the Boston Model Cities area. Jurisdiction over the cleared land surrounding the properties presumably rested with the Model Cities Administration. King-Bison prepared a presentation to Dr. Sam Thompson of the Model Cities Administration (MCA). He appeared favorably impressed by King-Bison's dedication to rehabilitation and "wanted to do all he could to help." Decisions regarding actual parcels were being handled by Ed Teitcher, on loan to Model Cities from the BRA.

A visit with Mr. Teitcher at the BRA site office near Government Center was inconclusive as well. On the Master Plan, dated January 1965, the entire area was designated as an educational site. Obviously it would be impossible for him to support this endeavor. But the fact that two doors up the street, also within this area, a new drug store had been built, interested him since he had a store he was trying to relocate. The possibility of relocating the BRA client into one of King-Bison's vacant stores was examined at length. This fell through, however.

In subsequent visits, it became clear that the BRA would neither block nor assist this particular venture. Acquisition of individual adjoining parcels,

foreclosed by the City, and held in trust by Model Cities or the BRA, was not possible without a more general plan for the area. Teitcher suggested that King-Bison as redeveloper propose some plans for rebuilding the entire surrounding area as low density residential. King-Bison gave this a try. Plans cost months to develop but brought King-Bison no closer to economic viability and code approval for the existing properties.

One adjoining parcel, fronting on Dudley Street was ostensibly still privately owned. It too, was a vacant, rubble strewn lot. But a visit to the Assessor's Department to determine the owner was most enlightening. Boston's tax records are computerized. In neat print-out, it was evident that the property at 479 Dudley Street was a three story frame building containing three apartments, sitting on 7,000 square feet of land all belonging to Marvin Peck. The back of the card showed that taxes on the property had not been paid in four years; the tax bills mailed to Marvin Peck at the address having been returned unopened. Discussion with the clerk was no help. He was not interested that the supposed building filled with apartments had ceased to exist some time ago. It was a common problem, he said. Meanwhile tax liens on the property are allowed to accumulate. The clerk indicated that after four years of non-payment, the property would be referred to the Real Property Division. If no owner were found, it would be foreclosed. King-Bison learned that for several more years this property would be out of reach to them. There was no Marvin Peck in the telephone directory, nor was there any assurance that this was still the real name

of a real owner. For the present, the 7,000 sq. ft. lot was unavailable, just as the surrounding vacant lots were unavailable without an architecturally appealing master plan.

To present a clear case to the Board of Appeals, it was important to know the facts and the relevant laws. How many square feet did the property contain? What was its floor area ratio? How to interpret the status of the Miller Park "private way" and the lot lines? Could the 2,018 sq. ft. of Miller Park be included? Did the code requirement of 5,000 sq. ft. for the first dwelling unit, and 2,000 sq. ft. for each additional dwelling unit apply to the original lots, or could this be applied to the entire package? Unofficial interpretations differed. King-Bison was advised to see the Engineering Department. This Department advised that a clue to the status of Miller Park lay in the size of lettering used in the official street index of Boston.

Miller Park was owned in common by the abutting property owners, i.e., the lot area could not include it, but the abutters own it as a private way, subject to public use. If King-Bison wished to include it, they were advised 1) to check whether any utility easements laid claim to the strip, and if not, then 2) petition the Mayor via the Public Improvements Commission to deed the strip in question to King-Bison as sole abutter. Although a favorable ruling from the Board of Appeals was essential for economic viability of the package, there was no way of ascertaining whether a deed to the 2018 sq. ft. would enhance the case sufficiently to justify the effort in obtaining it.



King-Bison returned to the Zoning Inspector in the Building Department; he could offer little further help. "Reasonable" adherence to code and zoning could solely be determined by the Board of Appeals. "Isn't there anyone who can advise us on what has constituted 'reasonableness' in the past?" At this point the name of an attorney who knows the Board well was surreptitiously offered. David Bird felt King-Bison could not use such services. "Why, if we can't get those permits fairly, then no little guy is going to be able to get rehab permits fairly."

For each building, although virtually all five were identical, the appeal had to be filed in quadruplicate, stating the aspects and degree of nonconformity. Of course the area interpretations were prejudicial against the case unless the package was viewed as a whole. To change the present stores to a lower use designation, for residential use only, necessitated an amendment, a change of occupancy fee and a Board of Appeals hearing fee -- \$50, \$25, \$100 respectively plus \$5 per thousand of additional construction cost not covered in the original building permit. This amounted to over \$200 per store. Fees are paid upon application, and, King-Bison was given to understand, are non-refundable in case of adverse decision by the Board.

At this point King-Bison stalled, as the mortgage commitments by John Hancock lapsed. Due to the rising interest rates and the uncertainty of the project outcome, there was no extension of the original commitment to provide financing. (17)

### Cost Impact of the City Regulations

The time and effort expended in attempting to negotiate the bureaucratic maze was incredible. In monetary terms, the equivalent of nearly a one man-year on the part of middle-salaried personnel at King-Bison was consumed in reaching the present point.<sup>(18)</sup> This has no doubt engaged half again as much time and effort on the part of the counterpart bureaucrats. The direct costs of the procedures in this case must have been well over \$20,000, taking normal overhead into account.

Less direct, but no less real, were the costs of delaying the work force, of increases in construction expenditures while nothing was happening, and of risks of vandalism while the units were not occupied. The extra expenditures actually exacted by the process -- emergency lighting in the stairs, 5/8" sheet rock in the halls -- were relatively insignificant in comparison to the costs to redeveloper and City alike, of determining what was required.

Finally, the least tangible costs lie in the psychological impact of fighting and attempting to negotiate such mazes. Statistics state this most clearly. There has been almost no action in small scale rehab. "The Administrator of the BRA admitted (May 1969) that, of 1700 housing units promised for completion in 1969 in the South End, only 135 units were under way in May."<sup>(19)</sup> King-Bison's efforts in the South End accounted for a substantial fraction of these. When the large work force engaged in the seventeen agencies affecting housing focusses on so few units, it is inevitable that they will consume much of the redeveloper's time.

The CHPA task force, studying the failure of Boston to produce housing, concluded that "housing functions in the city agencies were too fragmented to respond to clear policy directions. What should have been a strong current of municipal policy was broken into eddies and became sluggish meandering through bureaucracy . . . a job given to many agencies is not really given to any."<sup>(20)</sup>

Worth noting is that the reconstruction costs of rehabilitation are not particularly high. While there are no economies of scale, the tasks are well-suited to the small scale builder. It is in the negotiation with authorities that the small scale rehabber loses out. In this case, it appears that bureaucratic, not reconstruction costs hobble the rehabilitator.



## EVALUATION OF THE SMALL-SCALE REHAB MODEL

### Problems in the Model

The simple model of the rehabilitation process assumes that the owner has the incentive to rebuild, and that public authorities have the right to channel this energy into constructive building forms by permitting only those structures which are neither hazardous nor unsanitary. The applicant seeks permission and it is his task to prove that his proposal is reasonable. Underlying this is a more basic assumption that redeveloper and regulator alike, share the goal of providing standard housing.

The model assumes 1) that the incentive is adequate and probably monetary, being derived from the market, 2) that the regulatory constraints are relatively frictionless, promoting healthy and safe alternatives. In fact the incentives of the small-scale rehabilitators in general are largely non-monetary (derived from the commitment to do something), and inadequate to the task, once its entirety becomes evident during the process.<sup>(21)</sup>

King-Bison was not motivated by economic gain, but by the commitment to produce fair housing at a reasonable price. Purely financial incentives ceased to stimulate conservation in the area some time earlier. Nonetheless, its assessment of the feasibility of rehabbing the cluster of buildings containing obsolete stores into apartments seems reasonable based on its own cost figures from prior rehab efforts. No responsible official found fault with the concept in discussions prior to acquisition. Only when plans were well advanced and King-Bison was

negotiating with the BRA as abettor for additional land or its consent, did the ephemeral Master Plan of 1965 surface, preventing the BRA from publicly supporting the project. Nor should the Company have anticipated such red tape and delays in trying to convert from a higher to a lower land use. Indeed, one would expect the City to support and expedite the conversion of hazardous, vacant, obsolete stores into much needed dwellings. <sup>(22)</sup>

The enormity of the task deceptively lay not so much in the physical reconstruction, but in negotiations with the regulators that dissipated and absorbed the original incentive with little justification. <sup>(23)</sup> Instead of finding the clear-cut regulatory procedures which the model suggests, the redeveloper faces ill-defined jurisdictions administering arbitrarily, that engage him in games, rather than guide and support him. <sup>(24)</sup>

The lengthy change of occupancy procedure for the stores prevented King-Bison from rehabilitating these units when the trades were already on site, in the building. Instead, they had to return again later, increasing costs.

The jurisdiction over Rehab vs. rehab, between Pepicelli (FHA) and Martin (without FHA) was even more farcical, each suggesting jurisdiction in the case lay with the other. Again we encounter the Prisoner's Dilemma, in which an unattainable outcome (that nevertheless seems reasonable) can be posited by each actor so long as they do not coordinate. The excessive constraints appear to arise from too much regulation by too many actors with too little coordination and too little communication. It cannot be assumed that common goals and common perceptions rationalize the process. The redeveloper comes to realize that his end goal

of more decent housing is not uppermost with the authorities. The regulators appear to him more pre-occupied with justifying their own importance or role within the overall system. The permit applications simply furnish the grist for the many agencies which interact thereupon with too little rhyme or reason.

The rationale of the regulatory actions becomes more evident if we try to see the situation from the role of the building commissioner. (In fact most of the local public agencies share this viewpoint.) He is the proclaimed guardian of welfare. He cannot approve excessive densities, firetraps, or unhealthy conditions. Although these may abound all around, when specifically asked to affix his signature to a permit for a project within his jurisdiction, he cannot, for by doing so he might well be committing political suicide. The most successful gaming strategy would be to avoid the need for his stamp altogether. Small projects with minor upgrading presumably do this, but a substantial effort like the Dudley Street properties cannot. In "the old days" such a commissioner might have been practical, and shared an appreciation of what was reasonable, but now he holds a political appointment, has "face," and an importance that must not be slighted.

#### How General Is the Case of King-Bison's Dudley Street Properties?

There is little we can say with certainty. Herein lies the weakness of case studies, but impressionistic evidence suggests that autonomous upgrading in these areas for rental without subsidies has recently ceased to be feasible economically. King-Bison's problems would have been considerably less if they had not attempted change of occupancy procedures to convert stores, which some officials still thought "a good thing."

From this case we learn that the outlook for small-scale rehab for rental is gloomy without major modifications in the processing system: reducing the number of actors and multiple regulation, or alternatively increasing coordination and communication among them. To recommend the latter is a political ploy, since it is unrealistic to expect coordination among so many agents. In spite of increased construction costs, small-scale rehabilitation appears ironically to be hobbled not by the inability to achieve economies of scale in on-site reconstruction, but the inability to reach sufficient "politics-of-scale" to overcome arbitrary regulations through influence, or ignore them as it could in the past before subsidies legitimized them. As a result, many sound structures in marginal areas are rendered untouchable due to obsolete use classification. Like the Dudley Street properties, these structures often contain occupied dwelling units that are being forced into "red tape blight." Clearly the revision of use classification should not be handled by the present system in such a piece-meal, pin-pricking manner, because the effort dissipated in the process stops all action.

Change of use is simply one aspect of the present system that this case brought to light, but it is symptomatic of other aspects, which other cases can document.

In summary, the incentive to the small-scale unwary redeveloper who did the bulk of maintaining and upgrading housing in the past is clearly inadequate. But he is excessively constrained as well because he can no longer achieve an overview to judge the viability of a given project without actually carrying it out. Concomitant with recent fragmentation of jurisdictions, it appears regulations are devised "in the process." Each regulator seems to act from an excessively narrow conception of his

impact and to hold erroneous assumptions about the incentives and constraints governing the roles of others. The process dissipates too much of the redeveloper's energy in requiring that he obtain consent from too many segments of a fragmented bureaucracy wherein no one shares his goals.

FOOTNOTES - CHAPTER III

1. Boston Redevelopment Authority, the local renewal agency, was responding to the federal guidelines which called for non-profit groups to act as sponsors for 221 (d)(3) and 221(h) new-built and rehab efforts.

2. Each of these steps really comprises a set of operations, but for simplicity they have been grouped. Most of the small-scale rehabilitators in Boston follow the sequence illustrated. The process has been most explicitly detailed and chronicled by Whittlesey in The South End Row House. When the scale of the effort increases, the process alters as described in the examination of BURP efforts, section IVE.

3. In small-scale rehabilitation the sponsor often is the redeveloper and contractor, all in one. In larger efforts, specialization sets in and these functions are separated.

4. The federal designation of a neighborhood as a Renewal Area has impact on financing terms, and insurance availability. Beyond that, different areas have widely differing "mystiques," governing the willingness of financiers to invest.

5. Direct acquisition of title enhances his bargaining position with hesitant bankers and insurance agents, but is risky, even foolhardy if he is inexperienced.

6. For example, mom and pop stores in his package, or group of units, although long since rendered obsolete by some shopping center, cannot be converted into additional dwelling units without opening the Pandora's Box of bringing all units up to code, or facing complex Board of Appeals procedures.

7. There are alternatives to contracting the rehabilitation to outsiders. The sponsor can act as his own contractor. He can insist on training indigenous skills. Another strategy is to rehab around dwellers who remain in some of the units, thereby discouraging vandalism. These latter strategies tend to raise the immediate cost of rehab (even though they may ultimately be beneficial, training takes time and money; rehabbing around existing families complicates the work flow). They can be viewed as a crude approximation to insurance premiums that his stock will not be destroyed.

8. Melvin King, one of the founding partners, is now head of Boston's New Urban League. The general partners presently responsible are David Bird and George Sommaripa. College roommates and well-connected in the Boston community (Bird and Sons, roofing and construction supplies), they were previously operating a political economic consulting firm. King, Bird, and Sommaripa became King-Bison.

9. King-Bison's selection criteria were developed from their previous experiences in the South End. There they had obtained buildings for rehabilitation from the Boston Renewal Authority under subsidized write-down. On the basis of plans provided by the BRA, obtaining the necessary permits was relatively simple. In judging the feasibility of the Dudley Street project, they were unaware of the high time and effort costs involved in assembling their own package and in obtaining change of occupancy rulings to enable the conversion of obsolete stores into apartments.

10. How typical this situation is, is difficult to say. But "slumlord" ownership appears to be a more tenuous business than is commonly recognized. When code enforcement threatens, the owner simply vanishes. Holders of first and second mortgages do not come forward, since the liabilities that can attach to such a property are overwhelming -- foreclosure would shift these liabilities onto them.

11. Suburban properties regularly sell for eight to ten times current gross rental income, i.e. an apartment renting at \$150 a month has a capitalized value of \$15,000 to \$18,000. Note that an improvement that pays back to the suburban owner in well under eight years is worthwhile; an improvement in the slums must pay back in well under two years to recommend itself.

12. The passage of the Massachusetts Insurance Act in 1968 eased insurance problems. Under this measure, risks were assigned to insurance companies doing business in Massachusetts on an equitable basis. After implementation of this act, King-Bison's regular agent was able to place coverage for these properties:

13. Interviews with the majority of the small-scale rehabilitators in Boston revealed that these experiences are typical rather than extreme.

14. Planning began with a financial feasibility analysis, done on HUD forms (HUD 6230A, which is an abbreviated version of the well-known 2013 form). Based on income and operating expense projections on thirty-one dwelling units on the site, they were willing to cover up to 75% of the outlay, by committing \$180,000 in financing at 6 3/4% over twenty years upon completion of the rehabilitation. Interim financing or construction loans were to be secured from other banks.

15. It turned out that in the thirty line summary, the number of meter loops, amperage of individual circuits, type and material for water supply were of particular interest to the building department. It saved some effort to know this before typing five permit applications in duplicate. The only other way to discover what is called for in some of the blanks is by trial and error probing.

16. Regular building permits cover the building process in a fragmented manner, distinguishing between trades. Electrical, plumbing, pipe-fitting are all covered by separate additional permits. The Rehabilitation Permit procedure administered by

Pepicelli was designed to deliver one comprehensive permit, for a flat fee of \$20 per dwelling unit. The sum of fees for the separate permits amounted to considerably more than that.

17. How will King-Bison's problems with the Dudley Street package be resolved? On the ninth of December, 1969, the hearing with the Board of Appeals took place. King-Bison obtained a favorable endorsement of the venture by Thomas Atkins, Boston's black City Councillor, which it brought to the hearing. The Boston Housing Authority, which seeks Leased Housing Agreements for placing low income residents in private housing throughout the City, has virtually committed itself to fill all available apartments in the project upon completion. This influence coupled with the real pressure on the City administration to produce some housing should enable a resolution, but this has clearly been a philanthropic undertaking. King-Bison's and the tax-payers' dollars, administered by the Housing Authority, subsidized the cumbersome city processes.

18. Interviewing church groups sponsoring rehab in the South End, I found it not unusual for a minister to have spent the better part of three years shepherding a small project through, over, and around all the hurdles. A large proportion of this can simply be called "learning," but it goes to waste when the effort is not repeated, as is generally the case.

19. King-Bison Five Year Report, p. 1.

20. Citizens Housing and Planning Association, "To Rebuild a City," Preface.

21. Most of the non-profits interviewed indicated that they would not consider repeating their efforts without major changes in strategy or higher subsidies.

22. A clear clue to the impending difficulties lay in the market discounting of the value of these properties. When properties are traded for only twice their gross annual earnings, this is a market expression of the uncertainty that they will be assets much longer.

23. The problem is analogous to congestion on the highways, where each additional vehicle recognizes the problem as too many cars, but fails to take into account the contribution of his own vehicle's presence to the congestion. Similarly, the bureaucrat is aware of the excessive red tape, but fails to see how his own actions contribute to the friction of rebuilding the housing stock.

24. Arbitrariness is suggested by the fact that procedures governing BURP were decidedly different; ill-definition is revealed by the fact that King-Bison's venture was erroneously classified as an FHA Rehabilitation, compounding the problem with the Board of Appeals.



CHAPTER IV--THE IMPACT OF FEDERAL SUBSIDIES ON METHODICAL  
REHABILITATORS

NATIONAL TOOLS DIRECTED TOWARDS DECENT HOUSING

The Catalogue of HUD Programs, of June 1969, contains brief descriptions of the programs and services administered by HUD and stresses cooperation at all levels. <sup>(1)</sup> The preface states "HUD aids may take the form of grants, guarantees, direct loans, mortgage and loan insurance, technical and advisory assistance, or training assistance."

The "smorgasbord" confronting the housing conserver is quite bewildering. See Fig. IVA.1. for a partial selection. <sup>(2)</sup>

As recently as 1965, when the South End Community Development, Inc. (SECD) demonstration was conceived, it seemed that acquisition cost "write-down" plus FHA insurance on the mortgages would be sufficient to enable large scale rehabilitation. "Write-down" utilized Title I of the 1949 Housing Act, and the mortgage insurance was obtained under section 220, added by the Housing Act of 1954. <sup>(3)</sup>

Fig. IV A.1 Overview of Federal Rehabilitation Assistance Programs

<u>Category</u>	<u>Authority</u>	<u>Admin.</u>	<u>Remarks</u>
Rehabilitation grants	sec 115	HUD	\$3000 total, \$3000/yr max income in renewal areas
Rehabilitation loans	312	HUD	20 yr, 3% in renewal areas
Various loans and grants	Title I	HUD/RA	urban renewal projects
Mortgage insurance in declining neighborhoods	sec 223e	FHA	waiver of actuarial soundness normally required by FHA
Planning grants and technical assistance	106	FHA	interest free to non-profit sponsors
Mortgage insurance for low and moderate income	221(d)(2)	FHA	market interest rate insured mortgages
Interest supplements on home mortgages	235	FHA	payments to mortgagee to reduce interest down to 1%
Interest supplements on rental + coop mortgages	236	FHA	payments to mortgagee to reduce interest down to 1%
Leased Housing	23,10c	HAA	lease and purchase of scattered units for low income
Mortgage insurance for homeownership through credit assistance	237	FHA	voluntary counselling enables insurance of home mortgages
Rehabilitated homes for low income buyers	221(h)	FHA	mortgages at 1-3% towards dilapidated, substandard housing for rehabilitation and insurance
Multiple dwellings for rental to low + moderate income families	221(d)(3)	FHA	mortgages at 3% or market rate and insurance
Rent supplements	Title I	HUD	HUD pays difference between 25% dweller's income and fair market rent
Major home improvements loans and insurance	sec 203 220	FHA	up to \$10,000 loans for 20 yrs for rehabbing one to four family homes
Low income housing demonstration grants	207	HUD/RT	research and development grants for innovations in low income housing
Relocation assistance	107	HUD	purchase of replacement dwellings, up to \$5000 to displacees of other HUD programs

Source: abstracted from Catalogue of HUD Programs, June 1969, in order of presentation.

## THE CASE OF SOUTH END COMMUNITY DEVELOPMENT, INCORPORATED

The time pattern of federal support to facilitate low income housing consists of successively increased incentives to the suppliers. To prevent misapplication of the assistance, elaborate procedures and mechanisms channel their distribution. Simultaneously, roles of many specialists and professionals are legitimized by this additional regulatory process. In effect, a whole new set of constraints has come into being along with the increased incentives, largely offsetting their impact.

The case of South End Community Development, Inc. (SECD), furnishes a clear illustration of the impact of federal subsidies to housing suppliers, from which their influence on the pre-existing housing system can be deduced. As with King-Bison above, it is revealing to examine this case in some detail, so that inferences may be drawn.

Many of the housing incentives in the federal "smorgasbord" are not open to all applicants. Rather, they are available only to specifically qualified groups who follow the application procedures properly. In response to the federal legislation, many limited dividend and non-profit housing sponsors came into being. In Boston a lower property tax rate for such entities further favored their creation. United South End Settlements (USES), a group of settlement houses merged into a single entity, had been active in the housing field for many years in the South End. They decided to carry out a rigorous examination of the methods and costs of rehabilitation by rebuilding some row houses. In the spring of 1964 USES filed

an application for a low income housing demonstration grant (pursuant to Section 207 of the National Housing Act of 1961, as amended) with the Federal Housing and Home Finance Agency (subsequently incorporated into HUD). A grant of \$205,300 was awarded to USES in July 1964. USES executed a contract with SECD, Inc., a new non-profit corporation formed to carry out the program. One of the provisions of the grant called for detailed study and report of the process.

This was carried out by Robert Whittlesey, director of SECD, and the report was issued as a paperback, The South End Row House, in 1969. Much of the information presented here is found in this highly readable, yet well-documented study.

### Case Overview

Whittlesey furnishes a clear overview of the case:<sup>(4)</sup>

The South End of Boston is a predominantly residential area, just one mile from downtown Boston. Developed during the last century, the area has now the largest proportion of families and persons with incomes under \$3,000 of any district in Boston. The typical residential structure in the South End is a four or five-story, rather elegant brick row house, built originally as a single family home. An urban renewal plan has been adopted for the South End which calls for the rehabilitation of 75% of the residential structures, 98% of which are these row houses. Success of the renewal plan depends upon whether it is feasible and practical to convert these row houses into standard apartments and whether this can be done at costs which will permit rents which the low-income families and persons now living in the area can afford.

. . . A combination of means was employed including the use of a non-profit corporation eligible for real estate tax relief, acquisition of tax-foreclosed properties from the City of Boston, use of the corporation's own professional staff and construction workers to the extent feasible, financing the rehabilitations with loans at below-market interest rates and ownership and operation of the properties on a not-for-profit basis.

Eleven row houses in various sections of the South End were acquired and rehabilitated in accordance with HUD/FHA regulations. The rehabilitations of the houses were financed with mortgage loans insured by the Federal Housing Administration under the provisions of Section 221 (d)(3) of the National Housing Act, as amended. Seven FHA multi-family housing project mortgage loans were obtained to finance the rehabilitations. Four row houses were rehabilitated each as a single FHA housing project. The fifth and sixth projects were pairs of row houses, and the seventh project consisted of three houses on non-contiguous lots. Each house had from three to five apartments when completed.

#### The SECD Rehabilitation Process

The chronology of SECD's Project 1 is presented as evidence of the cumbersomeness of the process. This was only one of seven concurrent projects, each of which was as lengthy and difficult. The reader need not note every event but should simply sense the maze through which the redeveloper is expected to move his projects.

## CHRONOLOGY OF PROJECT 1

- May 18, 1964** The Committee of the Permanent Charity Fund votes to make a grant of \$75,000 to United South End Settlements (USES) to be used as initial capital for South End Community Development, Inc., (SECD).
- May 29** SECD is granted a non-profit charter under Chapter 180, Section 3 of the Massachusetts General Laws.
- June 1** FHA advises USES to consult with them prior to the selection of any properties in order that they may determine that:
- (1) location of the properties is acceptable,
  - (2) physical security is acceptable, and
  - (3) the property will generate sufficient income to support the mortgage--Rental schedule being discussed at this time was between \$50-\$90 per month.
- June 5** Boston Redevelopment Authority (BRA) informs Department of Housing and Urban Development (HUD) that they support USES' application for a demonstration grant and that the BRA is prepared to offer the following assistance:
- (1) provide tax-foreclosed buildings at no cost for rehabilitation,
  - (2) advice and assistance in the areas of cost estimating, rehabilitation design and advisory financial services.
- June 8** USES submits a formal application to HUD for a demonstration grant pursuant to Section 207 of Public Law 87-70, for the purpose of aiding in the financing of a low-income housing demonstration program.
- June 16** BRA informs HUD that they will give priority consideration to SECD for the acquisition of tax-foreclosed buildings to be rehabilitated under the demonstration project.
- July 1** HUD approves USES' application for Low-Income Housing Demonstration Grant.
- August 13** The FHA outlines procedures SECD should follow  
These are:
- (1) select areas in South End in which they are interested,
  - (2) get FHA approval of these areas
  - (3) prepare tentative before and after room layouts
  - (4) submit these to FHA for feasibility analysis
  - (5) receive from FHA recommendation for formal application submission
- September 1** SECD suggests that the BRA recommend five or six appropriate tax-foreclosed buildings for use in the demonstrations. SECD stipulated that these buildings must be large enough to contain five apartments and also requests information on the condition of the buildings. Demonstration project covering a period of 30 months starts.
- September 25** The BRA makes the following recommendations to SECD:
- (1) conduct rehabilitation in both white and non-white areas in the first phase of the project

- (2) reconsider the requirement that the buildings must have at least five units
- (3) acquire and rehabilitate some privately owned buildings in the first phase, and
- (4) consider acquiring privately-owned structures and rehabilitate them with non-demonstration funds.

BRA submits to SECD a listing of 32 buildings which it recommends as suitable for the demonstration. Only ten of this group are actually tax-foreclosed buildings, the rest are privately owned. The BRA suggests that SECD could make a private purchase of these buildings. Of the ten tax-foreclosed buildings, the BRA describes eight buildings as being in marginal condition and the other two as in fair condition.

#### NOTE

Of the four recommendations of the BRA, SECD complied with the first three. The fourth recommendation, concerning the acquisition and rehabilitation of a privately owned building with non-demonstration funds, was impractical from SECD's standpoint because at this time, all of its funds were committed to the demonstration. Of the second recommendation, SECD investigated the possibility of reducing the requirement for a minimum of five units but was informed by the FHA that this was a statutory requirement and could not be changed by administrative decision.

Of the ten tax-foreclosed buildings, SECD, after inspecting them, determined that just one building, 216 Northampton, was acceptable as an initial building in the demonstration.

October 23

The BRA submits for SECD's consideration a new list of twelve tax-foreclosed buildings. The BRA states that in its opinion the rehabilitation of these buildings is feasible and that all are located in priority rehabilitation areas. In addition the BRA requests SECD to undertake the rehabilitation of a vacant building at 161 West Newton Street which must be acquired from a private owner. BRA strongly recommends that SECD seek a waiver from the FHA on the five units requirement for each project.

#### NOTES:

The above mentioned list of tax-foreclosed buildings was developed at a number of meetings between SECD and the BRA. From this list, SECD selected five buildings. These were: 216 Northampton, 38 East Springfield, 23 Greenwich Park, 10 Dartmouth, and 45 Dwight. In addition, SECD agreed to consider the building at 161 West Newton Street.

November 2

SECD submits to the FHA for approval, a list of six buildings which have been selected in consultation with the BRA. Also submitted were before and after room layouts, tentative rent schedules and photographs.

November 4

The FHA stresses to SECD the importance of Urban Renewal Certification because without it, there is some doubt as to the acceptability of most of the areas that SECD has selected. FHA asks why the sites that were selected were scattered all over the South End. SECD replies that these were the *best, vacant, tax-foreclosed buildings available*.

- November 30 SECD formally requests that the BRA turn over to them without consideration, the five buildings previously mentioned.
- December 1 In a further discussion on the selection of sites, the SECD explains to the FHA that it intends to enlarge holdings in each of the areas selected to the extent possible and feasible. FHA states that it will do everything possible to make the program a success. To this end FHA agrees to approve all six sites as to location as long as they:
- (1) meet the statutory requirement for the minimum number of units (five),
  - (2) that the buildings are structurally sound, and
  - (3) that the rents will be between \$50--\$90 per month.
- FHA states that two or more buildings could be included in one project as long as they are within one block of each other.
- December 2 In a visit to Washington, SECD is informed by the FHA that the statute clearly requires a minimum of five units per project under Section 221 (d) (3).
- December 3 The SECD informs BRA that it has verbal approval from the FHA of five tax-foreclosed buildings. The sixth building at 161 West Newton Street is no longer being considered.
- December 4 SECD stresses to FHA the importance of having market and feasibility studies done concurrently with the development of plans and specifications. FHA 950 minimum standards are to be met. It was also agreed that architectural drawings and construction costs would be handled in a simplified manner. This would include:
- (1) FHA review of room layout drawings;
  - (2) SECD prepares detailed drawings, write-up and specifications;
  - (3) the latter are reviewed and approved by FHA;
  - (4) joint inspection of the buildings;
  - (5) architect completes drawings;
  - (6) SECD obtains contract bids and architect prepares cost estimates;
  - (7) SECD reviews cost estimates with consultants;
  - (8) SECD resubmits application for mortgage insurance with substantiation of building costs.
- December 7 SECD is informed by FHA that a preliminary application for mortgage insurance (Form 2013) should be submitted.
- December 14 SECD submits mortgage application, outline specifications and before and after floor plans on four buildings; 216 Northampton, 38 E. Springfield, 23 Greenwich Park, and 10 Dartmouth. FHA starts feasibility processing of these applications.
- Jan. 13, 1965 SECD submits the rehabilitation specifications for first four buildings to the BRA for its comments and suggestions.
- January 18 The BRA formally acquires the five buildings that SECD selected.
- January 26 The BRA suggests the following revisions in the rehabilitation specifications which had been submitted to them for review:
- (1) completely remove the unused chimneys;
  - (2) install automatic heating controls (outdoors);



- (3) not to install a complete fire escape unless specifically required. With reference to suggestions on methods for holding down rehabilitation costs, the following were recommended:
- (a) the mass purchase of materials;
  - (b) reduce labor costs through the utilization of youth work crews and by SECD acting as its own general contractor; and
  - (c) use alternative methods of property acquisition such as private purchase and utilization of larger buildings.
- February 3 SECD submits revised architectural floor plans on the four buildings. The changes were suggested by the FHA architectural staff.
- February 4 The BRA conveys the first five buildings to SECD.
- February 5 The FHA Commissioner announces his decision to put the first five SECD's buildings under Section 233 of the National Housing Act. This section concerns experimental housing and eliminates problems caused by the absence of urban renewal certification. It still permits SECD to receive the benefits of Section 221.
- February 9 In order to facilitate architectural designs, a contract for partition removal and cleaning of the five buildings is awarded.
- February 10 FHA states that the anticipated processing time from receipt of application to commitment should be approximately five to six weeks.
- March 19 At a meeting with HUD in Washington, SECD is informed that all of the demonstration projects must be FHA financed.
- March 25 FHA advises SECD to submit drawings and specifications on proposed rehabilitation. From these, construction costs are to be determined and then a final mortgage application filed.
- April 2 SECD submits to the BRA for its approval, the final plans and specifications for 38 E. Springfield. BRA approval of plans and specifications is required by the disposition agreement. SECD submits an application to the building department for a building permit for 38 E. Springfield Street.
- April 5 SECD submits to the FHA the final drawings and specifications on the first four buildings.
- April 26 The SECD is informed by FHA that FHA needs cost of construction. This could be done by submitting contractor bids. If SECD wishes to act as its own general contractor, it should submit a quantity take-off estimate or submit a construction cost based on subcontractor bids.
- April 28 Six bids received on 38 E. Springfield. The range of the bids is as follows:
- |             |             |
|-------------|-------------|
| 1. \$21,000 | 4. \$36,500 |
| 2. \$29,500 | 5. \$41,500 |
| 3. \$31,500 | 6. \$54,000 |
- Bid number 1 is withdrawn by the contractor. Bids did not include sprinklers, fire windows, and other items, the requirement for which was being reviewed by the Board of Appeals, and appliances and light fixtures which SECD planned to buy direct from the supplier.

- May 5 SECD submits to FHA the cost breakdown on 38 East Springfield Street based upon contractor bids.
- May 17 SECD's application for building permit at 38 East Springfield is denied by the Building Department on the following grounds:  
 (1) lack of a 3' 6" stairway;  
 (2) lack of a 2-hour fire-resistive enclosure around the stairs;  
 (3) lack of steel windows with wire glass within five feet of a fire escape;  
 (4) winder stairways prohibited.  
 The Board of Directors of SECD votes in favor of seeking a variance on these items.
- May 28 SECD files an appeal on the Building Department's denial of its request for building permit.
- June 3 BRA informs SECD that it will support the appeal from the Building Department's denial of a building permit at 38 E. Springfield Street.
- June 17 FHA informs SECD that their calculations indicate that the mortgage loan on the first four buildings is \$50,000 each. After a review of these calculations, it is agreed that these calculations are high. It is finally agreed that construction costs are to be carried at \$35,000 for 38 E. Springfield, to which must be added the architect's fee of \$3,400 to arrive at the cost of improvements.
- June 24 BRA approves the rehabilitation construction drawings for 38 E. Springfield Street.
- July 7 SECD files a revised application for a mortgage loan insurance commitment.
- July 19 SECD is informed by the FHA that SECD has received an allocation of \$455,000 at 3-3/8% interest.
- August 10 The Housing Act of 1965 is passed by Congress. This Act requires for the first time, the payment of prevailing wages in the construction of all non-profit 221 (d) (3) projects. This Act also stabilizes the below-market interest rate at 3%.
- August 18 The Board of Appeals grants relief and clears the building permit for 38 E. Springfield Street.
- September 9 SECD is informed by FHA that the commitment will be issued the following week.
- September 13 SECD is informed by FHA that SECD must re-file its mortgage applications to take into consideration the prevailing wage requirements of the Housing Act of 1965.
- September 17 SECD re-files the revised applications to reflect the prevailing wage requirement.
- October 4 SECD is informed by FHA that processing on all mortgage applications is being delayed because the Regional Office of the FHA is reviewing real estate tax arrangements.

- October 8 SECD received first mortgage insurance commitment on 38 E. Springfield Street under Section 221 (d) (3), pursuant to Section 233 (experimental housing).
- October 27 Pre-construction Conference on 38 E. Springfield Street is held.
- November 1 Construction begins on 38 E. Springfield Street.
- December 1 SECD determines that the Standard FHA Regulatory Agreement would, in effect, bar the Corporation from carrying on activities other than the operation of one individual housing project. After much consultation it was decided that the FHA would delete these Sections but that the SECD would promise to transfer to a non-profit entity satisfactory to FHA.
- Jan. 14, 1966 Initial closing held.
- May 1 SECD starts to accept applications for prospective tenants for 38 E. Springfield Street.
- May 26 Public dedication of 38 E. Springfield Street.
- July 25 First tenant moves into 38 E. Springfield Street.
- August 1 38 E. Springfield Street is completely rented.
- October 3 Cost certification filed with FHA.
- Jan. 26, 1967 Final loan closing and assignment of loan to FNMA.

Source: R. Whittlesey, op. cit., Appendix C.

### Interpretation of the SECD Case

The chronology of SECD's subsequent projects was similar. (See Fig. IVB.1.) Comparative analysis of these seven reveals that they are much the same. While there were benefits gained by experience and repetition, these only produced minor cost or time savings, generally offset by rising costs and revised procedures. In each project, the processing time required to obtain the HUD/FHA commitment exceeded one year and clearly became the determinant of the preconstruction interval, notwithstanding the need for obtaining variances from the City. By comparison, the period from start of construction to occupancy averaged under ten months, never exceeding eleven.

Reconstruction costs were higher than expected by the BRA and FHA. In part this was due, in a circular manner, to inflation during the period of delay, but more generally this pointed up the failure to grasp the nature of the experiment. The HUD demonstration grant was authorized because there were no adequate data on rehab costs in the South End. Yet the BRA Disposition Agreement <sup>(5)</sup> attempted to set maximum rents, and the FHA imposed cost limits on the rehabilitation.

The role played by the BRA and FHA did little to facilitate rents feasible to low income families. In pursuit of this objective, SECD entered into negotiations with the Boston Housing Authority (BHA), as soon as the leased housing program pursuant to Section 23 of the National Housing Act became available. As a result, two years after completion of the seven projects, thirty-three of the fifty apartments were leased to the BHA. In these, the families pay an average of 56% of the rent and the BHA pays the balance. <sup>(6)</sup>

Fig. IV B.1.

COMPLETION DATES IN CONNECTION WITH FHA LOAN PROCESSING

Project	FHA 2012 <sup>1</sup> submitted	Commitment Application requested	FHA 2013R <sup>2</sup> submitted	FHA Feasibility completed	Revised FHA 2013R submitted	Commitment issued	Initial closing	Start of construction	Occupancy	Final Closing
1	11/2/64 <sup>3</sup>	12/1/64 <sup>4</sup>	12/17/64	7/6/65	7/9/65 <sup>5</sup>	10/8/65	1/14/66	10/27/65	6/3/66	1/30/67
2	11/2/64 <sup>3</sup>	12/1/64 <sup>4</sup>	12/17/64	7/15/65	7/30/65 <sup>5</sup>	10/8/65	1/14/66	10/27/65	8/25/66	1/30/67
3	11/2/64 <sup>3</sup>	12/1/64 <sup>4</sup>	12/17/64	7/15/65	7/30/65 <sup>5</sup>	10/22/65	1/12/66	1/13/66	10/24/66	8/7/67 <sup>6</sup>
4	11/2/64 <sup>3</sup>	12/1/64 <sup>4</sup>	12/17/64	7/15/65	7/30/65 <sup>5</sup>	10/22/65	1/12/66	1/13/66	12/2/66	8/7/67 <sup>6</sup>
5	8/24/65	10/25/65	1/24/66	6/9/66 <sup>7</sup>	6/23/66	9/6/66	10/28/66	10/28/66	7/26/67	3/25/68 <sup>6</sup>
6	8/24/65	11/15/65	3/14/66	7/11/66	8/12/66	12/29/66	1/26/67	1/26/67	11/28/67	3/25/68
7	9/13/66	12/13/66 <sup>8</sup>	3/10/67	8/14/67	--	11/16/67	12/18/67	11/22/67	6/3/68	1/15/69

<sup>1</sup> FHA 2012 – Request for Pre-Application Analysis of Multifamily Housing Proposal.

<sup>2</sup> FHA 2013R – Application for Project Mortgage Insurance.

<sup>3</sup> FHA 2012 was not submitted at FHA's request, only architectural layouts and site plans submitted.

<sup>4</sup> Location approved.

<sup>5</sup> A second revised application submitted in September 1965 after National Housing Act was amended.

<sup>6</sup> Reprocessing delayed final closing.

<sup>7</sup> Commitment issued which was not accepted by SECD.

<sup>8</sup> Delayed 6 weeks awaiting allocation.

Source: Whittlesey, op. cit., p. 5-3, Table XIX.

In summary the SECD process has engaged quite a cast of characters in completing each project of five to twelve dwelling units. Because of the nature of the City, they include at least the Building Department, the Fire Department, the Board of Appeals, as well as some owners and abutters, as in the case of King-Bison. As a direct or indirect consequence of the federal incentives, this cast has been augmented by the following: HUD in Washington, FHA in Boston, the BRA, the City Real Property Department, and the BHA, as well as architects, lawyers, and other professionals. The incentives also produced SECD in the first place, to do the rehabilitating on behalf of its parent, USES. With so many guardians, it is difficult for the tenant to have a voice in the process, yet his normal choice to live elsewhere has been constrained.

Some of the direct impact of federal incentives to the small-scale redeveloper is shown by Whittlesey's findings:

Mortgage loan financing under Section 221 (d)(3) is lengthy and expensive and found to be impractical for small projects such as those developed in this study.

HUD/FHA mortgage loan insurance commitment processing took more than twelve months for each project after the project had been initiated. While other necessary steps in the development of a project also involved delays, the processing time required to obtain the HUD/FHA commitment became the limiting factor.

Organizational and processing costs to obtain HUD/FHA mortgage financing are almost as much for the small projects completed here as for projects of several hundred apartments. Administrative costs to process mortgage loan applications on the study projects far exceeded the costs allowed by HUD/FHA in the mortgage loans.

The long processing time of the HUD/FHA commitments was caused by difficulties with an experimental program, SECD's lack of

experience with FHA procedures, inaccurate estimates of construction costs, problems in connection with allocations of below-market interest rate funds and FHA bureaucratic requirements.

Notwithstanding difficulties experienced, the Corporation believes HUD/FHA mortgage financing under Section 221(d)(3) was the best financing available. Indeed it was the only HUD/FHA financing available in the South End during most of the period, so that the Corporation had no choice under the terms of the HUD grant contract. <sup>(7)</sup>

While he is clearly stating that HUD/FHA mortgage financing appears the best available, he makes it evident that it is not enough and too encumbered.

Only through the leased housing subsidies was SECD able to achieve low rents while paying off the initial costs.

#### Ongoing Problems

SECD discovered, as have many non-profit and other housing sponsors, that the difficulties of housing management exceed those of housing development. <sup>(8)</sup>

They found that expertise for solving the problems in redevelopment was readily available, but that the maintenance/management of these properties was a relative terra incognita. Operating costs turned out considerably higher than allowed by the FHA. (See Figure IVB.2.) Vacancy costs were less than half the allowed, but repairs, painting, and management were two to three times higher than the amount covered by FHA schedule. <sup>(9)</sup> These are largely due to the scattered and small-scale nature of the program. Attempts at involving the tenants in maintenance and management have so far not been promising.

Fig. IV B.2.

ANNUAL OPERATING COSTS COVERED BY FHA APPROVED RENTS AND ANNUAL OPERATING COSTS ESTIMATED BY SECD PER APARTMENT

Item	Project													
	1		2		3		4		5		6		7 <sup>5</sup>	
	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD
a) Vacancies	\$ 69	\$ 26	\$ 71	\$ 26	\$ 70	\$ 27	\$ 71	\$ 26	\$ 77	\$ 29	\$ 83	\$ 29	\$ 108	\$ 37
b) Fuel <sup>1</sup>	98	115	120	120	116	115	108	95	103	133	97	133	118	150
c) Utilities <sup>2</sup>	41	62	41	55	40	63	41	47	43	57	38	51	103	145
d) Insurance	42	58	65	63	46	58	48	61	61	64	66	78	88	107
e) Repairs & Painting	61	135	62	135	60	135	64	135	56	148	71	148	106	160
f) Halls & Misc.	20	35	20	30	20	30	18	35	22	27	22	28	17	33
g) Management fee <sup>3</sup>	46	200	52	200	46	200	47	200	52	200	55	200	72	200
h) Reserve <sup>4</sup>	24	41	24	40	24	40	24	37	29	43	38	44	35	60
Total Operating Costs	\$401	\$ 672	\$ 455	\$ 669	\$ 422	\$ 668	\$ 421	\$ 636	\$ 443	\$ 701	\$ 470	\$ 711	\$ 647	\$ 892
Real Estate Taxes	\$137	\$ 198	\$ 144	\$ 194	\$ 140	\$ 201	\$ 142	\$ 198	\$ 157	\$ 216	\$ 166	\$ 222	\$ 231	\$ 277
Total Operating Costs and Taxes	\$538	\$ 870	\$ 599	\$ 863	\$ 562	\$ 869	\$563	\$ 834	\$ 600	\$ 917	\$ 636	\$ 933	\$ 878	\$1,169
Average Annual Rent	\$984	\$1,316	\$1,022	\$1,295	\$1,006	\$1,339	\$1,015	\$1,318	\$1,131	\$1,439	\$1,187	\$1,478	\$1,539	\$1,845
Operating Costs and Taxes as a Percent of Rent	55%	67%	58%	67%	56%	65%	55%	64%	53%	64%	54%	64%	57%	64%

<sup>1</sup> Projects 5, 6 and 7 fuel costs include cooking gas.

<sup>2</sup> Project 7 rents include electricity.

<sup>3</sup> Fee based on management of 90 apartments with per apartment cost of \$200.00 per annum.

<sup>4</sup> SECD REserve is 10% of items b, c, d, e, f.

<sup>5</sup> Project 7 had 50 percent three and four-bedroom apartments.

Source: Whittlesey, op. cit., p. 6-4, Table XXIX.



## PROBLEMS ENGENDERED BY THE SUBSIDIES

In the case of King-Bison's Dudley Street properties, the rehab process was constrained by an excessive number of ill-defined jurisdictions attempting to regulate or control it. In the case of SECD the provisions of federal incentives has merely transposed these problems. BRA and FHA support aided negotiations with the Code and Zoning Authorities, but the procedures requiring the hearing of individual cases by the Board of Appeals remained. Not only do the original actors retain their roles, but new ones have been added.

✓ The effects of the present form of subsidies bring about several new aspects to which we now turn the discussion: 1) such subsidies legitimate the roles of facilitating beneficiaries, 2) they reshape or distort the market in potentially unhealthy ways, and 3) they exacerbate the problems of maintenance and management in the present housing market.

### Facilitating Beneficiaries

The pressures to ameliorate specific "problems" are acute in the political system. When housing is in poor condition, it seems to make political sense to set and enforce standards. The substandard housing identified thereby presumably becomes the responsibility of the owners. If there were adequate incentives to fix up housing, regulation might work; otherwise it is mere buck-passing while decline continues. The federal subsidies were to provide sufficient incentive. Specific subsidies seemed natural as particular purposes became

expedient politically: to revitalize and recast the heart of the metropolis, to arrest blight, to re-attract the deserting middle class, to provide jobs for skilled workers, etc.

Over time quite a tangle of separate subsidies got woven together. Listed below is a partial index of those utilized by the small-scale rehabbers in Boston (listed in Fig. III C.1.) in their attempts to rehabilitate decayed inner-city housing. Broadly, the "public" is the supposed beneficiary, but there are target "facilitating beneficiaries" whose support was required to build the enabling coalition and lobby for continuation of the subsidy.

- Write-down of acquisition costs. Under Title I of the 1949 Housing Act groups like SECD can obtain an entire building for the nominal cost of \$1. Facilitating beneficiaries (F.b.): all groups with a vested interest in survival of the city, especially business and industry, as well as the affected owners who thereby manage to sell their run down properties.

- Planning services of the BRA. The agency offers planning services and influence, ostensibly to guide and ease the task of properly redesigning "impact areas." F.b.: architects, lawyers, and planners in touch with the field situation to varying degrees. (10)

- Below Market Interest Rate (BMIR) mortgages to selected redevelopment sponsors (FHA administered 221(d)(3) and other programs like HUD 312) are often arranged with the BRA as matchmaker between project possibilities and "appropriate" sponsors. These subsidies are otherwise open to redevelopers who have "earned" the trust of the FHA. F.b.: the selected redevelopers.

- Leased Housing subsidies. The BHA contracts with owners of existing dwelling units to rent apartments on behalf of BHA's low income tenants. The subsidy can be substantial, amounting to the difference between "market" rent and a designated percentage of the tenant's income. (11) F.b.: present owners of apartments who find themselves trapped between rising operating costs and dwindling rent revenues from low income tenants.

- Differential impact of code and zoning provisions are selectively "negotiated" in determining their application to existing structures, especially to the renewal of pre-code buildings. F.b.: are hard to identify, since the

relatively arbitrary process is cloaked in politics, but it appears that the applicant's "political size" correlates roughly with the size of subsidy obtainable.

- Local tax "understandings." Tax payable to the City is calculated in some special way. Such arrangements include 1) forgiveness or amelioration of past taxes, 2) setting taxes at a percentage of gross rents (15% in SECD's case) under the stipulation that certain income groups be served 3) tax "freezes" (holding at levels prior to rehab), or 4) tax "holidays" on improvements. (The last two are more commonly encountered outside of Boston.) F.b.: the redevelopers and sponsors involved.

- Federal tax incentives act through income tax depreciation allowances and sheltered pass-through provisions in the federal revenue code. SECD was unable to utilize this subsidy, since it is non-profit. F.b.: investors in high tax brackets. (12)

Further classes of subsidies are less explicit and more diffuse in their application. Many of the non-profits obtained the following assistance, but whether their net influence was positive or negative was difficult to determine.

- Expertise and advisory assistance is volunteered or its costs are underwritten by concerned outsiders. This subsidy can be significant, but its impact is erratic. Whether it is perceived as constructive by the recipients is a function of the responsiveness of the donor. The board of USES and other non-profit groups receive substantial amounts of this "assistance." F.b.: establishment members strongly desiring to "do something."

- Utilizing indigenous or non-union skills. The positive or negative impact of this subsidy is uncertain. King-Bison believes it saves on costs by hiring and training the unskilled. (13) Whittlesey, on the other hand, attempted to provide training for Neighborhood Youth Corps boys, and found the effort relatively unsuccessful. (14) F.b.: the unskilled who receive training.

- Losses experienced by the well-intentioned form a substantial subsidy. Some of the resources spent by King-Bison are unrecoverable through future income from the properties. The experimental nature of SECD was covered by a special HUD demonstration grant, but well over a dozen efforts are currently being made by groups backed by churches and other philanthropies, without HUD grants. These are in effect, considerable subsidies. (15) F.b.: in the short run poverty warriors; in the long run no one.

The role of the "facilitating beneficiary" must not be misunderstood. He is a sincere, well-intentioned actor engaged to relieve some of the pressures generated by the underlying problem. If symptoms are confused for causes, political understanding of the problem is at fault. But we must recognize that as the actor becomes engaged, he acquires a vested interest in the approach that engaged him; it may be that thereby "he ceases to be part of the solution, and actually becomes part of the problem." While this can neither be proven nor disproven at this point, it is wise to recognize that this effect may underlie our systematic inability to devise alternatives to pressing social problems. Facilitating beneficiaries can comprise a large inertial or homeostatic force against change, and the above subsidies legitimate their roles.

#### Subsidies Reshape the Market

The present form of low-income housing subsidies distorts and overrides market signals from the consumers of housing services, due to their direct application to the supply side, thereby increasing the uncertain and contradictory information already present in this housing market. In the general housing market, the consumer chooses his housing services according to his tastes and means. He considers such factors as number of rooms, sizes, location, style, form of tenure, taxes, maintenance, neighborhood, access to schools, friends, and shopping. When the mismatch between his present bundle of housing services and a new set within his means exceeds the effort and inconvenience to him of making the switch, he exchanges or modifies his bundle. He may move, cease to maintain, or upgrade -- all in a variety of ways. His actions are market signals.

Subsidies distort this process in potentially undesirable ways. The subsidies to the housing supplier are offers to pay increments of the dweller's housing costs in cases where the dweller has insufficient resources. To the supplier they constitute an immediate but otherwise unobtainable incentive. In these cases the subsidizer is in a position to enable or prevent the success of the sponsor's effort, since without the subsidy the sponsor would suffer loss. The influence of granting or withholding subsidy is very direct upon the rehabilitation sponsor; the dweller's future rent money is much more remote. The irony is that the dweller still pays the major share of the rent; the compound subsidies account for a minor share, yet the latter are shaping the sponsor's actions while restricting the dwellers'.<sup>(16)</sup>

Consider a South End resident who pays \$56 in rent for a SECD apartment, with BHA paying \$44 to the sponsor on his behalf. Since he would have to spend \$100 to obtain such a dwelling on his own, his preference is biased towards the SECD apartment. What he would have done if he were paid the \$44 as a housing allowance is unknown. He might have preferred to move out of the area, or a different type of unit than the single floor of a former row house. The market might have responded differently if the dweller allocated the incentive to housing suppliers. His actions would be identifying obsolete and shunned areas and housing types for decisionmakers.<sup>(17)</sup> A drawback of subsidies in present form is that they mask obsolescence rather than identify it.

In shaping the sponsor's actions, these subsidies inhibit his entrepreneurial initiative as well. SECD was led to choose units acceptable to the BRA and to combine them into packages for the FHA to obtain BMIR financing. SECD changed IVC-5

and rebuilt interiors to conform with FHA requirements. An entrepreneur might have clustered his holdings, or worked on buildings serially to utilize his labor crews more efficiently. He might not have revised the interior layout -- a costly business -- and concentrated on rehabilitation of deficiencies -- new plumbing, fixtures, mechanical equipment, and finishes. There is no simple way of ascertaining the cost impact of "guiding" the sponsor's decisions, but this probably increased costs by more than was saved in preventing unrational choices on his part. Another drawback of subsidies in present form is that they restrict entrepreneurial initiative.

The creation of special non-profit sponsors to carry out demonstrations has already been briefly touched on above. A non-profit may not be as profit-hungry as a conventional entrepreneur, but it may be lacking in experience, both in reconstruction and in dealing with authorities.<sup>(18)</sup> This lack of experience is compounded by the limelight of demonstration which forces the literal interpretation of each stipulation of the codes. These aspects also raise costs and tend to reduce the output from a given amount of subsidies.

A rationing process springs up spontaneously when subsidies are backed by insufficient appropriations to be offered to all applicants. In this rationing, other forms of influence determine who gets the subsidy -- reliable performance, a good image in the media, or political friends.

In response to the above subsidies, some housing sponsors began to treat each other as rivals, currying favor with the BRA and seeking favorable publicity in the media, which only indirectly related to improved housing. This independence IVC-

of subsidies coupled with their strong shaping influence results in a system where the control has shifted from the consumers and entrepreneurs to the regulators of the subsidies. This may have been intended by the designers of the subsidy process, but it brings with it risks that must be appraised.

These risks are compounded by the rivalry generated by their inadequate appropriations. Sponsors were led to promise more than they could deliver and to hide their inadequacies. Jointly the narrow, specific, inadequately funded incentives to suppliers produced the following effects:

1. Specific subsidies discourage the evolution of alternatives and communication about them outside their range. They appear to condition the actors under their influence to assume there is no other way of doing the job and still getting the subsidy. This is evident when one considers that a man of Whittlesey's ability can see no role for tenants in the process, while other rehabilitators like Housing Innovations (HI) attempt to "rehab around tenants" or work with representatives from the low income group.<sup>(19)</sup> Darwinian evolution and selection among housing options is a healthy mechanism in the general housing system, and its abrogation to meet low income needs rapidly should not be taken lightly.

2. Consumer sovereignty does not structure the allocation of housing resources under these subsidies; the guidelines and actions of the regulators do. Normally market signals of consumer preference carry important information on preferred location, dwelling type and layout. These subsidies hinder the normal attempts of entrepreneurs to meet these needs efficiently within the constraints of the existing stock. Identification of obsolete areas by omission is also masked.

3. Present subsidies may be inefficient. The arguments of restricted entrepreneurial initiative, potential lack of sophistication of non-profit sponsors, and the rivalry and misrepresentation encouraged by subsidies with insufficient appropriations have been presented above, but the consequences require elaboration. HUD at present appears less concerned about lack of alternatives than about providing some form of housing for every sub-group in the low income sector. Until gaps in coverage are closed, lack of options is considered secondary. Yet without alternatives for comparison, HUD guidelines may be specifying rather inefficient models that rapidly consume the resources available for subsidization. SECD required \$12,000 plus acquisition write-down and hidden subsidies per dwelling unit. A large share of the amortization is borne by the taxpayers through leased housing subsidies. A potential alternative costing half as much would allow the subsidy to provide twice as many units. But in a circular manner, the present subsidies discourage evolution of alternatives which could serve as rigorous benchmarks for comparison. (20)

Some would interpret these three points as an argument for generating an increased range of dweller choices through direct subsidy of alternatives, but this overlooks the causal connection between highly specific subsidies and the dearth of evolving alternatives. Subsidies predispose and limit choices to options within their range. Even the broad homeownership subsidy (through personal income tax exemption of mortgage interest) discourages the alternative of renting. A subsidy should be as broad as possible within the objective of facilitating low income housing, to allow options to evolve and choices to be made by the dwellers.



Problems of Maintenance and Management under Present Subsidies

SECD encountered high management and maintenance costs after completion, compared with the FHA schedule of allowable costs. (21) This schedule is derived from FHA norms for projects of around 90 units at higher rents but was accepted as a rough normative guide. It should immediately be noted that SECD had only 50 scattered units, serving a lower income group at significantly lower rents. Many costs may be absolutes, rather than percentages of the rent roll. Whittlesey's findings that repairs, painting, and management costs were two to three times higher than permissible under the FHA schedule correlate roughly with King-Bison's experience. Since misconceptions on the origins of these costs are common, some further discussion based on King-Bison's and SECD's experience is in order. Both had comparable units scattered in the South End; both served tenants under BHA's leased housing program.

Reasons for the higher costs can be placed under three headings:

1) the buildings are wrongly located, 2) the poor are simply rougher on their surroundings, and 3) the poor lack the incentives and understanding to treat their surroundings properly. There is some truth in each.

1. Are the buildings obsolete? In structurally sound, properly rehabbed buildings there is no particular reason why the heat required or the wear on apartment interior surfaces should be significantly greater than for comparable new apartments. Examination of King-Bison's maintenance procedures suggests that their higher costs stem from the manner of rectifying problems, rather than the task,

per se. Not only do minor problems go undetected until they have become more serious (or until the unit is turned over to a new occupant), but time spent "on the road" between scattered sites is significant. Both King-Bison and SECD tried to cluster their units, but were unable to do so. <sup>(22)</sup> There is little to suggest that the rehabbed buildings are at fault in themselves. Their separation from one another, however, probably contributes to the high maintenance costs.

2. Do low-income dwellers abuse their environment? In fact, in any income group some dwellers are rougher on their surroundings than others, so "normal" landlords attempt to screen out undesirable tenants. Under the BHA's leased housing program, this is not directly possible. To simply accept the fact of high wear and tear by such tenants is too fatalistic when maintenance and management are the owner's responsibility. Consequently King-Bison and SECD are experimenting under the third point, but inconclusively so far.

3. Do low-income dwellers lack incentives and the understanding to maintain the dwellings and their surroundings? At present this is an hypothesis rather than a fact, but since it suggests some remedies, it is worth examining further. <sup>(23)</sup>

A distinct drawback of rental tenure in maintaining housing is that it discourages the dweller from developing a longer range identification with his dwelling environment and encourages his moving when he doesn't like his situation. He experiences no incentive to modify the situation himself. This is exacerbated under leased housing where his rent is fixed as a proportion of income. As long as his income remains constant (and programs remain unchanged) his rent does too, regardless of his IVC.

behavior; and when his income rises, rent rises. By contrast, a resident homeowner receives quick feedback from the consequences of his maintenance actions or inactions. Not only does he feel that the benefits of all his efforts to improve his surroundings accrue to him, but the nasty surprise of higher repair costs where he has deferred tasks too long condition him not to let such matters occur. The normal tenant experiences such incentives in attenuated form. The Leased Housing tenant does not often experience such conditioning and incentives. He may thereby escape developing an understanding of maintenance. This leaves it to the owner to maintain without feedback.

Unfortunately, when landlords think tenants aren't doing what they "ought," and tenants think landlords aren't doing what they "should" but just collect fat rent checks, the situation rapidly polarizes. The landlord neither learns of problems in time, nor is he in an easy position to effect remedies. If he appears at the property, he is besieged by expensive requests or abuse, "teaching" him to keep out of sight. Maintenance is deferred until the unit turns over to a new tenant, or not even then, if the landlord feels he cannot afford it. (24)

The present highly specific subsidies to the housing suppliers examined above allow the concerned actors to hold very disjointed and partial views. There is no mechanism to assure harmonious pursuit of shared goals. Tenant, owner, civic officials and even financial backers acquire polarized "each for himself" attitudes and easily believe in fault, chiselling and incompetence on the part of the others. Without shared understanding of the common problems, promising new strategies for conserving housing are unlikely to emerge.

In summary, the overview required for rational entrepreneurial decisions is prevented in these rehabilitation efforts. The addition of highly regulated, specific subsidies has not rendered obtaining this overview easier. There is a need for subsidies, and a need for regulating the delivery of housing services in these low income submarkets, but the present over-regulation of those attempting to rehabilitate or upgrade the existing stock is misplaced and probably has costly drawbacks.

## THE SELECTED REHABILITATORS

The cases above have shown how the incentives to rehabilitate inner-city housing have been dissipated and offset by systematic constraints. In the case of the BURP program, competent developers were selected and offered special incentives to rehabilitate houses on a crash basis. In a limited sense this program was a success as the chosen few redevelopers responded by renovating over 2300 dwelling units in Roxbury in an unbelievably short time; but in the longer run, the housing situation is more constrained than ever due to the special intervention by the FHA. Reactions by others than the favored few and misunderstandings about the program on the part of the authorities have further polarized expectations and perceptions of the generally deteriorating housing situation. BURP's benefits consisted of the rapid renovation of a significant number of housing units, not all of which were in real need of repair. It resurrected relatively few vacant units. Not only were the immediate cash costs for this renovation substantial, but a legacy of hidden costs from this type of political intervention is continuing to surface, dwarfing the original benefits.

### Economic Background to BURP

Although the previous cases have focussed on the considerable time, effort, and expense entailed in dealing with the red tape attendant to inner-city rehabilitation, the continuing costs encountered day-in day-out whether the unit is occupied or vacant, are particularly high as well. First claim on the inner-city housing dollar is made by taxes, insurance, mortgage and interest, all of which tend to be higher

in the city than in suburbia. <sup>(25)</sup> The dweller experiences these as housing costs, and his principal recourse to avoid them is to leave. The owner, facing these costs directly, and pushed to cut costs where he can, finds it is simplest to defer maintenance. The incentive of maintaining resale value is absent, since the low market value of his property inversely reflects the costs upon it. <sup>(26)</sup>

The rehabilitator finds the deceptively low acquisition costs mask high holding costs, which continue even while units are unoccupied. These make the process of rehabbing unoccupied dwellings extremely time sensitive, since during this period there is no offsetting current income from the properties. High costs in time, effort, and delays, of obtaining permission for rational changes in use (chronicled in the King-Bison case), encourage rehabilitators to adhere to obsolete plans and land uses. Accepting the high holding costs, the redeveloper is faced by two alternatives: to rehabilitate as rapidly as possible, attempting nothing that threatens to delay the process, or rehabbing "around the dwellers" so that rent revenues continue.

The alternative of "rehabbing around the dweller" is not very satisfactory where outside labor is involved. While there is offsetting rental income from the dwellings, the occupants dislike the mess, and their presence can only prolong and complicate the actual reconstruction process. <sup>(27)</sup>

Recent federal incentives have been distinctly encouraging rehabilitation as swiftly as possible without attempting significant changes. As was implicit in the model of small-scale rehabilitation (see sec. IIIA.), the redeveloper's task would be simplified if he had his financing assured on the basis of a promised

output, enabling him to choose the units, prepare plans, obtain insurance and win compliance from the public bureaucracies. The Boston Rehabilitation Program (BURP), utilizing 221 (d)(3) financing, was designed to fit these ends. In fact, processing time for the assured financing was reduced to less than two months, saving the sponsor over a year of holding costs that he would have incurred under normal processing.

#### Political Background to BURP

While the economic factors shaping the BURP model were evident to many, it is unlikely that such a program would have come into being without the conjunction of a series of political factors.

Rehabilitation inadvertently acquired considerable glamour as the negative impact of total clearance under urban renewal became evident. Although little federally sponsored rehab had been attempted, President Johnson said in 1967 that "rehabilitation is the key of many of our successful urban renewal programs."<sup>(28)</sup> The key was relatively untested, its costs and benefits unknown, but HUD Secretary Weaver gave it an aura of great promise in his testimony to the Senate Subcommittee on Urban Affairs in the summer of 1967. "While recognizing the 'difficulties and complications that are inherent in rehabilitation' Weaver stated that he 'had some real achievements to report' and pointed out that 'since we began a series of experiments and studies in 1961 to improve our techniques, rehabilitation has become a far more important tool in local urban renewal activities.'<sup>(29)</sup>

Notwithstanding Secretary Weaver's promises, the semi-autonomous FHA, which should have formed the backbone of any HUD efforts in rehabilitation, had in fact done very little. Senator Brooke, newly elected from Massachusetts, critically stated his opinion that the FHA was not attuned to the demands of low and moderate income housing needs in the central city.

The criteria are different. The procedures are different. And even though Commissioner Brownstein [FHA Commissioner] has attempted, and I think unquestionably in good faith, to move low-and-moderate-income housing, the personnel that he has just are not attuned to doing it. And I think the record speaks for itself. (30)

At the time BURP was conceived, in the summer of 1967, less than three thousand units had been rehabbed under the (d)(3) program anywhere in the country. Under federal programs of any kind in urban renewal areas, less than 200,000 structures had been rehabilitated since 1954. (31)

In effect, the Johnson Administration was challenged to deliver more than rhetoric in support of lower income rehabilitation. Operating on a directive from the White House, HUD -- more specifically, the FHA -- established the Boston Rehabilitation Program, "to demonstrate that the Administration could 'do something' about rehabilitation in a short period of time, at the massive scale that had been eluding Secretary Weaver and the renewal efforts across the nation." (32)



## THE CASE OF THE BOSTON REHABILITATION PROGRAM

### Adaptation of the Rehab Model for BURP

The cases examined above followed the conventional model wherein the redeveloper seeks the financing. In the case of BURP, financing sought out the redevelopers. Revising our outline model, the process looked like Figure IVE.1. (Compare with Figure IIIA.2.)

Usually the redeveloper spends much effort convincing a skeptical FHA of the financial feasibility of his operation. With BURP, the situation was reversed. Edwin D. Callahan, Executive Assistant Commissioner of the FHA became the "architect" of BURP, with the authority to act unilaterally, and reporting directly to FHA Commissioner Brownstein and Secretary Weaver.

Callahan rounded up what he felt to be the twelve most competent developers in the Boston area who had been involved in rehabilitation or had the capacity to become involved in the process. In meetings at FHA headquarters he put the following proposition to them. If they would agree to rehab buildings in six months for a total mortgage price of \$12,000 he would get them an FHA commitment in sixty days. The \$12,000 figure was based on his careful analysis of previous rehabilitation work in multi-family buildings in Roxbury by Gerald Schuster which indicated that roughly \$4000 for acquisition, \$6500 for construction and \$1000 for financing would rehabilitate BURP-type units. The six months and the sixty days however, were figures based on nothing but an over-riding need to get the job underway and completed before the Democratic Convention to be held in the summer of 1968. (33)

Considering an FHA processing time that always took at least twelve and sometimes up to twenty-four months, two months was revolutionary.

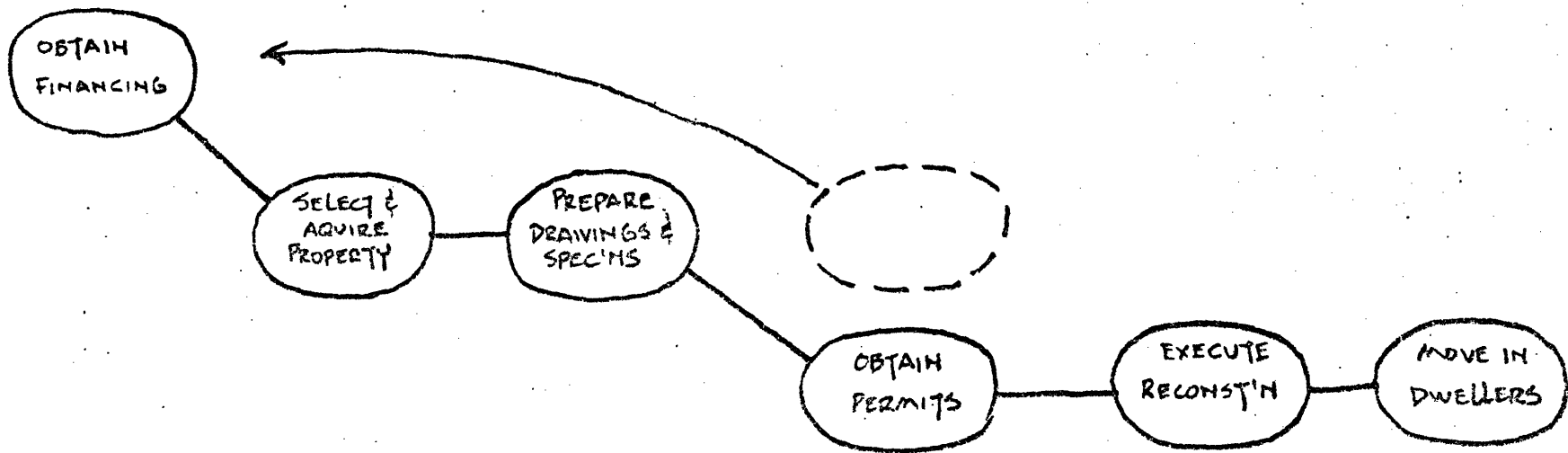


Fig. IV E.1. BURP REHABILITATION

Selection of redevelopers was similarly unorthodox. Callahan was able to go about it in the manner of an employer screening applicants to meet his detailed qualifications. These consisted of prior experience in Roxbury real estate, in dealing with the FHA, and with a demonstrated or potential competence in rehabilitation. The process of selection was quiet and intricate, and resulted in five white developers whom Callahan referred to as "a bunch of pros."

Although the upper limit of \$12,000 per unit was arrived at by examining the previous work of one of the selected redevelopers, it simply became a target figure for average rehab cost within a package. Given a federal stipulation that at least \$3500 go towards labor and materials, the developer nevertheless had considerable leeway in determining whether to choose "creampuffs" (units requiring relatively little rehab, but with higher acquisition costs) or "dogs" (which could be obtained for substantially less but required more rehab). A bias against dealing with the "dogs" emerged, due to factors that could not be anticipated before actual reconstruction. To minimize these uncertainties, developers chose as many "creampuffs" as possible. As a result units requiring extensive rehab were avoided, and many occupied buildings were renovated instead; the \$24.5 million brought few dwelling units dropping from the housing stock back in, but rather focussed on redoing previously tenable units. Thereby relocation became a large problem, as recounted below.

Selection and acquisition was a shrewdly designed process to minimize price increases and delays. Awareness of the extent of the program was carefully guarded and the individual developers selected buildings to avoid zoning or legal occupancy problems that would later delay City permits.

Processing by FHA and City authorities was specially streamlined for BURP. The FHA eliminated submission of extensive drawings and back and forth negotiation over details that normally takes months, substituting on-the-spot face-to-face decision-making in many instances. The City's Building and Fire Departments eliminated much of the multiple jurisdiction ambiguities normally encountered by such redevelopers as King-Bison and Whittlesey, and set up a special procedure under Assistant Building Commissioner Leo Martin. <sup>(34)</sup>

The conceptual design of the BURP model had carefully taken many factors into account. The subsequent allegations and outcries on the part of black labor, relocatees, other developers as well as advocate planners was clearly unanticipated, shocking and surprising to the designers.

#### Modifications to the BURP Model

As awareness of the massiveness of the BURP intervention spread, criticism came from all sides. <sup>(35)</sup> There were no black developers, nor provisions for black labor; relocation plans were inadequate. One Building Department official familiar with outside developers remarked, "I know a good many who'd give their right arm to get a slice of that action."

To achieve rapid results, the FHA had chosen to deal with a select few, but the many who were left outside felt a common cause in attempting to modify BURP. When Secretary Weaver came to Boston to announce BURP on December 4, 1967, he was confronted by a coalition of militant black leaders. Bryant Rollins as their spokesman read a prepared statement:

The program being dedicated has given no consideration to local developers; non-profit developers, cooperative ownership or local management. It has been marred by racial discrimination in employment and inadequate re-location procedures.

The FHA has shown that it can move with unprecedented speed -- to give high profits to developers from outside the community and to establish a huge preserve for exploitation by absentee landlords.

Apparently Secretary Weaver's department can move quickly only when it is operating against community interest. (36)

The Boston Globe supported some of the objections, stating editorially, "The objections to the Weaver-dedicated project . . . are not only legitimate, they also represent in microcosm the plight of the Negro nationally . . ." (37)

Melvin King, Executive Director of the Boston New Urban League (one of the five agencies signing the statement read by Rollins) sent a long letter to Secretary Weaver a few days after the encounter, which was reprinted in the local papers. King stated that in his opinion: (38)

. . . black people now are demanding that the equity coming out of programs be put into the hands of the community. . . . And even though it may take a little longer to accomplish the goals of physical change. The elimination of the frustration and the building of a viable and healthy community will be the result.

The alternative to such an approach -- an alternative which you have selected in regards to the new \$24.5 millions program -- represents a continuation of the method of operating which has so badly failed to bring about the needed change.

We intend to see to it that the rehabilitation project does not go forward as you have designed it. We will take whatever steps necessary to prevent the project from going forward as currently planned.

King clearly expressed a broadly shared determination. Ill-timed evictions plus a prolonged cold spell during which heating plants in several BURP held buildings broke down were played up by the media, broadening awareness of BURP and forcing recognition of certain issues. Keyes carefully chronicles the evolution of modifications through a fascinating process combining pressure with reasonableness, opportunism with altruism. The outcome in terms of "community participation" was the addition of two black redevelopers and a substantial amount of black employment by the largest of the original redevelopers, Penn-Simon.

#### The Creation of the Two Black Redevelopers

There were no suitable black developers in December 1967, prior to the confrontation. By March 20, 1968, less than four months later, a black group called Sanders Associates was in possession of an FHA commitment for \$996,000 for the rehabilitation of 83 apartment units in Roxbury. <sup>(39)</sup> By early summer another black redeveloper, State Enterprises, was on its way.

FHA went after black developers and sponsors with the same kind of singleminded determination that the agency had used to package the original BURP units. All the reasons why black developers could not be included seemed to be swept away when the priority became that of insuring such participation. And all of the processing <sup>(40)</sup> shortcuts of the BURP model were utilized by the two black sponsors.

The actions of King and Rollins were apparently necessary to bring this about.

### Participation of Black Labor

Participation of black labor in BURP came about more by confrontation than by good will. The pressuring and yielding of Penn-Simon left the other redevelopers relatively free; Simon with 50% of the BURP units was a good target. Ironically, Simon had decided to have a non-union labor force in its previous rent supplement rehab projects to bring in local workers. Without the buffer of unions, Simon's BURP projects were wide open to black hiring demands. As a result, Penn-Simon acquired a labor force swollen by the untrained and the partially trained. Keyes' figures show that while Schuster was able to handle 12.5 rehab units for each man on their construction force, Penn-Simon could handle less than 6, i.e. Penn-Simon had less than half the efficiency. While there were doubtless benefits in training 300 black workers in rehab skills, the extra costs fell upon the confronted redeveloper who sought to pass them on in whatever ways he could devise. (41)

### Relocation Needs

Relocation needs also forced modification of the original BURP model. At the outset, it was optimistically assumed that the vacant buildings could be rehabbed first, and that by a process of "musical chairs," displacees could move into finished units, with rent supplements covering the rent differential. In fact, this was very unrealistic. Only 380 dwellings were vacant -- less than a fifth of the total -- due to each developer's instinct to offset each "dog" by enough "creampuffs." Also, it was wise to balance each individual package, so there were

displacees from the start. Ideally, each developer would have wished for his tenants to remain in the buildings as insurance against vandalism until rehab could begin, but then for them to disappear on the day reconstruction commenced. In fact, an understandable policy of not maintaining the acquired, decrepit buildings resulted in approximating this strategy. A severe cold snap shutting down a number of heating systems, however, brought the plight of the BURP victims onto the editorial pages, contributing to the pressure to provide relocation.

The original BURP concept did not provide explicitly for the return of displacees to completed BURP units, a critical consideration when dealing with so many occupied dwellings. Nor were sufficient rent supplements contemplated to enable them to do so. There was, however, enough general indignation over the impact of this intervention to assure relocation within BURP, including moving payments, and rent supplements to those evictees still around at the time the modified procedures took effect.

The HUD response to the pressure was an Urban Renewal Demonstration Grant, earmarked for research -- apparently the only money HUD could find. HUD announced on January 15, 1968 that the BRA would conduct a study of relocation and the role of social services in the process. The details were finally worked out months later. Of the \$550,000 grant, \$165,000 was subcontracted to Boston University for the research, \$135,000 went to the BRA for staff, \$90,000 to the Roxbury Multi-Service Center for social services, and \$150,000 for moving payments. Only \$150,000 -- a little over a quarter of the grant -- was allocated to cover moving expenses of the victims; the rest went to facilitating beneficiaries, including research, supervising professionals and services. (42)



The leased public housing program enabled eligible low income families to return to the completed buildings. By FHA regulation, only 10% of the families in a BMIR project may be placed under leased housing. Here the pressure was so great that the regulation was waived. 843 of the families still around were found eligible by the BRA for leased housing. Of these, 600 are in completed BURP units. Thereby close to 35% instead of 10% of the BURP units are under leased housing agreements with the Boston Housing Authority.

## DIFFICULTIES RELATED TO SPECIAL INTERVENTION

### The Aftermath

In the general market, when consumers do not like a product, or think its price too high, they just do not buy it. When they do not like a service, they can boycott it. But when lower rents under subsidy have been arranged on behalf of the dwellers, the option of refusal comes hard. Vacancy rates under the distorting influence of such direct supplier subsidies are meaningless. Planners and policy-makers must sift other evidence to determine whether the dwellers have obtained suitable housing. Without market feedback, how would dwellers express their dissatisfaction? The BURP tenants tried to present their views through conferences, the media, and through calling an FHA hearing. They commissioned an outside evaluation and they have attempted to build a legal case to sue the FHA for non-compliance with its own regulations.

On January 23-25, 1969, an Institute on Innovative Technology in Housing Rehabilitation was held at Boston University focussing on BURP. In general, the speakers presented BURP as a major step forward, making light of the difficulties and stressing that they were surmountable. Tenants were not included to present their views. Attempts to present other views were carefully controlled, but wall placards and some pointed questions from the audience suggested that the presented picture was incomplete.

By May 1 and July 1, a small minority of the tenants were engaged in rent strikes, paying their rents instead to the Tenants Association of Boston. These were triggered by "minor" rent increases. News of the strike put BURP back in the papers, and the FHA on the defensive again. Globe critics<sup>(43)</sup> had an easy time obtaining tenant views on the program.

Tenants felt the units were "incomplete," that they were being charged "finished rents for unfinished apartments." "The government thinks they can throw up a couple of badly built houses in Roxbury and then have the black people bow down in thanks." Such criticisms were answered by redevelopers and FHA officials indicating that the BRA, Fair Housing, Inc. and other groups pressed too hard to house needy tenants before completion. "FHA director Flynn said he did not see any reason why developers shouldn't charge full rents for apartments where only 'minor items' had to be completed. Apartments may be certified for occupancy before a building is finally inspected according to Flynn. In other words, if hallways are not finished or washing facilities installed, the apartments themselves may be occupied."<sup>(44)</sup> Having apartments certified for occupancy is not so easy for others, outside BURP.

The Globe critics observed "Tenant complaints about original construction and present maintenance of apartments is intensified by suspicions that the developers are making excess profits from the BURP enterprise," and they conclude, "BURP's dilemma persists: a program that was designed to radically improve the lives of the poor has frustrated and angered many of them."

Mrs. Eva Curry, head of the Tenants Association of Boston (TAB), sought other recourses. She told the Globe critics, "In a few years, these buildings will be back in their original state and people will be pointing to us saying 'the tenants tore them down!' We want people to know these buildings were never finished in the first place."<sup>(45)</sup> TAB requested an FHA hearing to document their charges of "incomplete work, substandard materials, poor supervision of construction, and poor maintenance." While making attempts to broaden the rent strike, TAB commissioned Urban Planning Aid, Inc., an independent group of advocate planners in Cambridge, to evaluate BURP's effects on low and moderate income tenants. UPA undertook a thorough investigation to document the state of BURP units upon completion. Sampling more than 10% of the units and documenting the evidence photographically, UPA reports seventeen principal findings, six of which are of special interest to us. The others corroborate what has already been presented in this case.

Some findings suggest that tenant feedback is actively being prevented:

1. Community and tenant participation in the BURP program was hampered first by the failure of developers and FHA to provide an effective formal role for such groups in decision-making. The Tenants' Review Panel had only an advisory status. The grievance procedure

developed later was limited to dealing with problems on a case-by-case basis and could not deal with the general inadequacies of BURP. Further, decisions of the Tenants' Review Panel and Community Advisory Board were frequently undercut by the developers and FHA.

2. FHA obstructed, through secrecy of information, tenants' efforts to protect their own interests.

3. Many tenants live in substandard conditions in incompletely rehabilitated BURP housing. FHA refuses to take responsibility for these conditions and has obstructed tenants' efforts to improve them by withholding information. Developers took action to improve conditions only when required to do so by tenant economic pressure. (46)

The subsidies to the redevelopers have removed just the economic pressure consumers need to modify the process.

It is ironic that the tenants who were living in substandard housing are pressuring the FHA to abide by its own regulations. The UPA report documents several ways in which BURP was exempted from the rules applied to other redevelopers, including:

4. FHA did not use its controls over the developers to require quality production.

5. Cost-cutting measures by developers, including use of substandard materials, failure to provide competent supervision, incomplete work, and failure to fix roof and plumbing leaks, have led to accelerated deterioration of BURP apartments.

6. FHA failed to take action against a developer who was ordered by the Massachusetts Commission Against Discrimination to desist from discriminatory practices in renting BURP housing. (47)

Most recently, TAB has attempted to bring suit against the FHA for non-compliance with its own regulations through a black law partnership. Although not officially admitted, the FHA did indeed "inspect units over the telephone" to meet the deadlines on individual packages. Redeveloper and FHA alike, shared a common interest in moving as rapidly as possible. The City and the FHA did not

regulate the process in the public interest because of their special interest in carrying out the program. This left tenants, without the economic means, and other community spokesmen and advocates to regulate the BURP program as best they could. When regulatory agencies acquire vested interest in production, their objectivity in regulating is compromised.

Apologists for the BURP program stress that the considerable improvement over prior conditions and the swiftness of process should be weighed in evaluating the results. "Think where these dwellers would otherwise still be living!" This disregards the costs in viewing the benefits. Not only did \$12,000 per unit produce remarkably little (twelve thousand dollars to refinish each of the one to four-bedroom apartments), but the stirred-up dweller resentment, in itself, is an indicator of hidden social costs.

The BURP Product

In section IID a simple graphic analogue for the rehab process was developed. We postulated that housing decay begins slowly and then increases in rapidity, shown in the increasing slope of AB over time, Figure IV.F.1.

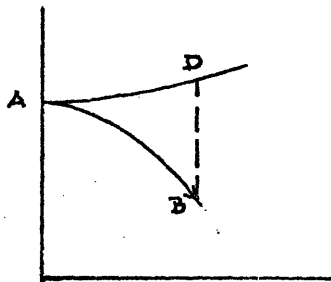


Fig. IV.F.1. Dwelling Decay Pattern

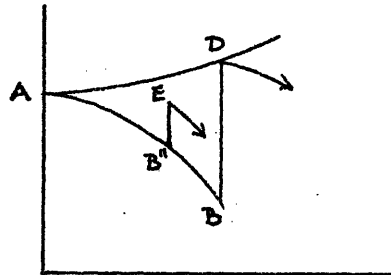


Fig. IV.F.2. Rehabilitation Patterns

In graphic terms, BURP's stated purpose was to bring units from B to D. (See Figure

IVF.2.) Keyes and the UPA report suggest that many of the units were not really IVF-5

down at B yet, but were intercepted when decayed only to B". The UPA report documents that a substantial number of the BURP units were not brought all the way up to D. Where rehabilitation is incomplete, the decay trajectory over time is likely to be steeper, as shown at E, rather than mild, as at A or D, when new or "as good as new." (See Fig. IVF.2.)

All observers are inclined to doubt the 55-year economic life of the BURP product upon which the FHA mortgage is based. The degree to which rapid decay will be due to dweller behavior or to incompleteness of the rehab is difficult to judge. The UPA photographs suggest that the share due to sloppy rehab is substantial. Defects including leaking skylights, missing roof hatches, peeling paint, loose tiles, rat holes, and draughty windows, furnish a poor starting point. The spill-over onto tenant attitudes from these defects cannot easily be proven, but they can only be negative, and may be extremely high, by failing to induce the tenants to do their part in maintenance. (48)

#### The Latent Costs in the BURP Process

To the FHA, the BURP program appears an unqualified success. Even though efforts in Boston under BURP processing continue only on a very diminished scale, FHA is attempting to carry the program into other cities. To the outside observer, units selected for BURP are substantially improved by the process, but a more complete evaluation must consider costs as well. We attempt to do this here.

To cover the initial rehabilitation costs<sup>(49)</sup> and enable the previous dwellers to move back in entailed compound subsidies. These included BMIR financing under IVF-

221(d)(3), leased housing agreements with the Boston Housing Authority, and tax sheltered depreciation allowances on the sponsor's equity. These are on-going and borne by each and every taxpayer. In addition, a major subsidy comes from all who collaborated "to make the program work" -- including the unclassifiable subsidy of time and effort of preventing the program from going forward in its original form.

The indirect costs, in terms of BURP's impact on dweller attitudes, have been discussed above. Since the effect appears to have had a substantial negative component, maintenance costs can only be higher, with the dweller playing less of a role.

Even less direct, but nonetheless real, is the inflationary impact on conventional redevelopers. BURP has set a new floor on rehab costs and a new level of expectations regarding financing and processing that can neither be made universal, nor sustained. To the redeveloper not invited by the FHA, normal financing and the City Agency regulatory process will seem doubly bitter hereafter. The special advantages of BURP encourage the selected few while discouraging any others. Its nature makes it a "this way only" method instead of an alternative, coexisting with others.

The irony is that this much clout achieved so few required changes. Instead of altering obsolete practices -- discriminatory hiring, unrealistic urban land pricing, excessively constraining regulatory processes, non-functional land uses, etc. -- the BURP program sidestepped these issues, by either accepting them or arranging BURP-only exemptions from their application. The overwhelming regulatory constraints

remain for others. How can needed adjustments come about if BURP-size ventures do not actively support legitimate efforts towards change? This requires: supporting the action brought by the Massachusetts Commission Against Discrimination against one of the redevelopers; not supporting land speculators; not being satisfied with the Building Department's special FHA rehab processing system under Pepicelli unless available to all developers and applicable to a broader range of building-use types. A handful of King-Bisons cannot change these obsolete practices when BURP underwrites them all.

The only change that may not be transitory is the more rapid processing by FHA for this special type of program. But the tendency to streamline is not even spilling over into other 221 programs like -(d)(2), or -(h), or their successors under sec. 235 or 236.

In conclusion one can only say that the least evident but highest cost may lie in the misleading impression gained by the public, including many who are well-intentioned and serious about housing. Parts of the cumbersome FHA bureaucracy are already interpreting this venture -- the only serious attempt at rehabilitation at scale -- to signify the impossibility of rehabilitating housing in general. The public, on the other hand, has been led to feel that BURP is an "answer" to the inner-city housing crisis. In the short run a few politicians and bureaucrats gain from such misinterpretations. In the long run, we all stand to lose.



FOOTNOTES - CHAPTER IV

1. The cover sheet notes "All HUD programs are based on cooperation between government -- Federal, State, and local -- and private enterprise, and all are directed toward providing decent housing in suitable neighborhoods for all Americans and toward helping urban communities create a healthy environment in which people can live, work, and prosper."

2. Abstracted from the Catalog of HUD Programs, June 1969.

3. "Write-downs" are a form of subsidy by the federal government to enable urban renewal. Under Title I, properties that are no longer profitably manageable are acquired under eminent domain proceedings, or for a negotiated sum from the previous owner by the renewal agency (in Boston, the Boston Redevelopment Authority). This agency then obtains a "re-use appraisal" from the federal government through HUD. This appraisal reflects the costs of bringing the property up to the use specified in the urban renewal plan. When the anticipated costs of this "rehabilitation" plus acquisition costs exceed the envisaged market value of the project, the acquisition costs are "written-down" enabling the redeveloper to obtain properties for nominal payments. The redeveloper guarantees to bring the property up to the standards of re-use called for in the urban renewal plan -- in the case of rehabilitation of dwellings, FHA 220 standards. The mortgages are then insurable under the provisions of section 220 by the FHA.

4. Whittlesey, The South End Row House, p. x.

5. The BRA Disposition Agreement received inadequate attention in Whittlesey's chronology. In fact, it represents an important set of operations connected with acquisition of tax foreclosed properties from the City:

Acquisitions of properties from the BRA required several steps. After SECD had submitted its request, BRA approved the request and asked the Real Property Department of the City of Boston to release the property to the BRA. A twelve page Disposition Agreement between the Authority and SECD was then prepared. This agreement set forth the conditions under which the properties were to be conveyed to the SECD. After the Real Property Department had released the properties to the BRA, the BRA's Board voted the transfer of the properties, the Disposition Agreement was signed and the properties conveyed to the Corporation.

Whittlesey, op. cit., p. 1-17.

6. Ibid., p. 5-17.

7. Ibid., pp. 18-19.

8. Ibid., p. 6-1.

9. Real estate taxes were also noticeably higher, but this can be attributed to their linkage to 15% of gross annual rent coupled with the impact of the BHA subsidy.

10. By dividing the budget of the BRA departments affecting rehabilitation by the output of units during the relevant period, someone at Eastern Gas and Fuel Associates deduced that the BRA planning services subsidy amounted to several thousand dollars per dwelling unit. The memo bearing this information was lost; only its memory remains.

11. In SECD's cases, BHA paid 44% of the rent on behalf of the tenant; in the absence of this subsidy, rents would have increased 93%. This is similar to the more widely known Rent Supplements to certain sponsors of new-built low income housing projects. Whittlesey, op. cit., p. 5-19.

12. These are not to be confused with the qualitatively different federal income tax exemption of home mortgage interest payments which subsidizes homeowners directly.

13. In King-Bison's experiment in plastering similar row houses, professionals were able to complete comparable plastering of interiors at significant time and cost savings over their regular work crews. When the task is narrow and well-specified, fully trained workers can best do the task; but in developing new approaches and integrating tasks among various trades efficiently, King-Bison still believes it pays to train their work forces.

14. Whittlesey notes that lack of motivation, their irregular hours, and finally the impact of paying prevailing wages discouraged the use of the unskilled. He argues that rehabilitation is not for the untrained, and that the increased costs of such training should not be added to the cost of providing low-income housing. Training takes time and effort, and should be subsidized accordingly, in his view.

15. The typical case of the Joseph Tuckerman Memorial, Inc. to rehabilitate houses on Greenwich Street in lower Roxbury, illustrates how an effort, publicly hailed as a success, cannot be repeated because of the heavy, unrecoverable subsidy exacted from the sponsors. While several dwellings for home-ownership under 221(h) resulted -- at the low monthly principal and interest cost of only \$56 -- the sponsor's cost per unit exceeded the FHA limit of \$12,600.

The difference was borne by the sponsor as subsidy, and he has not repeated the venture despite the valuable experience gained. If the 221(h) ceiling had been raised to \$14,600 (raising the monthly cost to the family to \$65 or increasing the federal subsidy under the program) then the sponsor could have afforded to repeat the program.

16. King-Bison's present negotiations with the BHA to obtain a subsidy for the Dudley Street properties illustrate this. Drawings for the unrehabbed ground floor units have been brought to the BHA for review to obtain leased housing agreements upon these units for future BHA tenants. The demand for such items as doors on closets, color fixtures in bathrooms is being reviewed by the BHA, presumably on behalf of the dweller, but his say in the matter is quite indirect and simply a function of how the BHA arrives at the criteria. FHA and BRA review of SECD drawings illustrate the same point. Interviewing tenants to determine whether the "right" product is being arrived at is inconclusive. Some tenants place more emphasis on process wherein they can play a role in deciding among alternatives. Allocating limited resources, they might well arrive at the same ordering of priorities (viz. choosing between a garbage disposer and kitchen fan) but by participating in the decision they respect and understand it; at present some resent both the decision made for them and the decision-maker. This can only be detrimental to their subsequent care and maintenance of the dwelling unit.

17. This is discussed in greater detail in concluding chapter VII.

18. Less true of Whittlesey than most Boston non-profits.

19. By ingenious arrangement, HI is trying to enable low income resident ownership of triple-deckers in Roxbury by combining fifteen year BHA housing leases for rental apartments with FHA insurance, so that the prospective owner can obtain and support a conventional mortgage from the Boston Bank pool (BBURG). Although two out of three dwellers are tenants, the third can have significant impact on demand in this housing system. Denis Blackett, who directs HI, is a sensitive and highly trained black architect-planner. Finding such a capable and imaginative director, who can manipulate the available subsidies to be more responsive to low income needs, is rare -- too rare to base a housing system upon.

20. For a strong statement of this argument see Welfeld, "Toward a New Federal Housing Policy," in The Public Interest, Spring 1970, pp. 31-43. The efficiency of the subsidies in producing more standard housing is more explicitly examined in the Rochester case, Chapter VI.

21. Figure IV.B.2, and Whittlesey, op. cit., p. 6-4.

22. Under FHA allowances, a single project or contiguous properties containing around a hundred dwelling units become a viable group for professional

caretaker services. Both King-Bison and SECD are well below this size, and have more scattered holdings. Part-time maintenance personnel have not kept costs down.

23. This is extended in section VI, focussing on case studies in Rochester, New York.

24. King-Bison's figures show that after debt service, taxes, and utilities, only a narrow margin of rent revenues remains for conscientious management, maintenance, and return on equity. To do more than simply hold the properties, the alternatives are either to be a slumlord (short-changing the tenants) or a philanthropist (short-changing oneself), or apply for BHA subsidies.

25. Residents have few options to alter this. They can go on rent strikes, vote for rent control, or move out. All three strategies are currently being attempted in Boston, because the atomistic dwellers are unable to lower taxes, insurance or interest rates. Boston's functional tax rate is among the highest in the nation, labelled "confiscatory" by Charles Abrams. By 1968, insurance had become both expensive and very difficult to obtain as companies shunned declining areas. The 1968 Massachusetts Insurance Act attempted to remedy this by pooling and assigning risks to all companies doing business in the state. Conventional mortgages had higher interest rates vis a vis suburbia. But without the collateral of a good job or name, they had been virtually unobtainable for some time previous to the tight money of 1969.

26. Remember that whereas suburban properties sell for approximately ten times gross annual rental income, market prices for houses in Roxbury average only two to three times their income. Any improvements must pay back within this shorter period to be rational.

27. Denis Blackett and Harold Brown have both attempted this in Boston. While accurate cost figures isolating the difference are unavailable, they both discourage further attempts under this strategy.

28. President Lyndon B. Johnson, Message on America's Unfinished Business, Urban and Rural Poverty, March 14, 1967.

29. L. Keyes, "The Boston Rehabilitation Program," II-1, quoting U.S. Senate Subcommittee on Housing and Urban Development Legislation Hearings, 1968, Volume I, p. 96.

30. Ibid., p. 131.

31. L. Keyes, op. cit., II-3. Statistics extrapolated from memo by FHA Exec. Assist. Commissioner Callahan, 1/13/1969.

32. Ibid., p. II-4.

33. Ibid., p. II-12.

34. As elaborated in the King-Bison Case, this was administered by Pat Pepicelli, and inadvertently applied to a few rehabilitators outside BURP leading to subsequent confusion. See Sec. III.C.

35. L. Keyes, op. cit., has brought together many different views of the BURP program, some of which are repeated here. For a fuller presentation of the intricacies, turn to his forthcoming book.

36. Mimeo statement from Grove Hall Development Corporation, December 4, 1967, cited by Keyes, op. cit., prologue, p. 2.

37. The Boston Globe, December 6, 1967.

38. Quoted in Keyes, op. cit., III-22, 23.

39. Eastern Gas and Fuel Associates played an intriguing role in this. Eastern first learned that BURP was about to occur within its franchise area in October 1967. It swiftly moved to become limited partner in two of the originally planned ventures. While expanding its market for heating gas sounds worthy enough, the spillover tax benefits to investors in high tax brackets via limited partnership appeared extremely favorable. When militant action jeopardized the whole program, Eastern played a very active role during December and January in creating and securing commitments for Sanders Associates.

40. Keyes, op. cit., III-43.

41. Training, in effect, is a form of education without immediate payoff to the trainer. When one redeveloper is forced to train he incurs costs (lowered productivity in this case) which he must either bear or pass on. All too frequently they are included in the price of the final product, as an embedded subsidy. Whether manipulation of financing, rent supplements, or losses on the part of the redeveloper are used to cover the increased costs, they amount to an imposed subsidy. Instead, training could have been provided for explicitly, as part of the BURP model.

42. Keyes, op. cit., III-56.

43. All quotes from The Boston Globe, August 17, 1969, Judson Brown and Janet Riddell.

44. Ibid.

45. Ibid.

46. Urban Planning Aid, Inc. An Evaluation of the Boston Rehabilitation Program, p. 3-4.

47. Ibid.

48. Consider a tiled kitchen floor. SECD tenants are inclined to keep such a floor clean because "your effort shows." In BURP, however, a simple loose tile acts as a source of dirt and aggravation to the dweller. He is discouraged from putting in effort.

49. These are taken to include acquisition, reconstruction, financing, profit, etc. as covered at the FHA closing.

## CHAPTER V - SUMMARY OF INFERENCES AND IMPLICATIONS FROM THE BOSTON CASES

This chapter summarizes the impact of federal subsidies upon rehabilitation brought to light so far. A tentative evaluation of their interaction with pre-existing incentives and constraints affecting the delivery of housing services and a preliminary assessment of their drawbacks can both be made. Judgment on the efficiency of these subsidies in increasing the supply of standard low income housing is reserved until after presentation of more evidence in the Rochester cases in Chapter VI.

This chapter is in three parts. The first juxtaposes the inferences from the cases; the second summarizes the problems engendered by the present subsidy system evident so far; and the third part begins to outline remedies.

### INFERENCES FROM THE SET OF CASES IN BOSTON

As discussed in Section II, the decline of areas in the central city manifests a complex interplay of forces including many which arise well outside the housing process per se: location preferences, fashion, discrimination, and labor wage expectations, all compounded by inequitable government policies -- a whole tangle of factors with extensive cultural roots. In particular areas, high taxes, poor municipal services, rapid turnover of ownership encouraged by double declining balance depreciation, and dwellers with abusive living patterns converge. The visible manifestation of these forces registers in a variety of

separate indices: substandard housing, poor school attendance, high unemployment, high racial concentrations, etc. which have historically been treated as separate problems.

To counter the problem of substandard housing, the initial response in Boston was to set up a host of sanctioning agencies to regulate separately individual aspects of the narrowly perceived problems. In those areas where the incentive to act was still present, this may have been effective, but King-Bison, SECD, and BURP found the normal market opportunities had vanished, and regulation to maintain housing standards in their neighborhoods was ineffective. However, as King-Bison and SECD began their tasks, the local regulators arrived to confront them with a staggering amount of legitimate friction.

#### The Unwary Rehabilitators

Some of the small-scale rehabilitators saw an interrelationship between lack of jobs, run-down houses and neighborhoods. King-Bison and Low-Cost Housing, Inc. set out to cluster their houses and to train indigenous workers in the necessary skills outside union shops, offering year-round employment and advancement commensurate with ability and acquired skill. They achieved finished buildings that were definite assets to their neighborhoods and workers with "a leg upon the ladder of opportunity." But due to the "Prisoner's Dilemma" effect,<sup>(1)</sup> little of this resulted in equity to the owners. The benefits simply "boiled off" as the neighborhood improved ever so slightly and the



experienced workers were hired away by contractors able to pay a premium for black labor (direct subsidy to these contractors enables them to pay more).

King-Bison did not limit its efforts to upgrading buildings without zoning problems. Instead they attempted quixotically to change obsolete uses into viable ones -- marginal stores into housing. The process they had to undergo reveals the blighting impact of red tape in countering obsolescence. While decline of these areas is caused by a tangle of factors, "red tape blight" emerges as a significant component that should be amenable to change by policy makers.

The King-Bison case casts doubt that change of use is being responsively handled between the appropriate agencies. It seems, as the CHPA report stated, that "A job given to many agencies is not really given to any."<sup>(2)</sup> Autonomous upgrading for rental is thereby placed in doubt. To King-Bison, the legitimate regulators of upgrading presented too many obstacles for rehabilitation to be economically possible on Dudley Street, at this late stage. Without the investment by insurance, and without the need to change the legal occupancy status, King-Bison could perhaps have proceeded clandestinely to improve the lot of the tenants in the building (as perhaps others may still be able to do elsewhere in Boston -- only census figures will reveal that).

The King-Bison case suggests that constraints far exceed the incentives for unwary rehabilitators of average competence and limited influence.

### The Methodical Rehabilitators

Necessity and political expediency reduced the City to the role of regulating use as best it could, and human nature led to underestimation of the problems of achieving coordination. The 1949 Housing Act recognized that the City, by itself, no longer possessed the means to provide incentives to cause private investment to reappear in its declining areas. And the federal government found it could provide subsidies more easily than it could revise the local regulatory mechanisms. (In fact, it had perennial problems in keeping its own regulatory mechanisms flexible and responsive.) The case for resource redistribution back to central cities like Boston is generally conceded. Even the need for subsidies for low income housing is generally accepted. Frieden writes "One unmistakable aspect of the low-income housing problem is a simple matter of economics. Families living in poverty are often forced to spend a substantial share of their income -- one third or more -- for housing."<sup>3</sup> Awareness of this set the stage for subsidies to facilitate standard housing for the low-income sector, but the cases of SECD and BURP raise the question whether these subsidies are being offered in the most productive form, whether they are producing sufficient lasting and widespread positive effects to justify their costs. Recent housing appropriations have been parsimonious, thereby not fully testing the provisions of this legislation, but we cannot thereby assume that lack of money is all that is wrong. The mode and manner of distribution of the subsidies is equally critical in determining their impact.

SECD pointed up the way the federal subsidies interacted with the existing framework. Adherence to prevailing wages, work practices, and local code and appeals procedures were explicitly called for under the program specifications, in ways which other contractors and upgraders had not been forced to take so literally. A critical point here is that in the past under fewer regulatory agents, each actor had a broader grasp of the situation and many of the regulators had a solid background of building experience. The following line of argument cannot be proven, but it seems reasonable in light of the present situation. In the past issues were probably handled informally and more pragmatically in light of the field situation, much as they still are in smaller municipalities today. As specialization and fragmentation set in and actors multiplied, norms and procedures rose in importance. The regulators became more politically conscious of each other, and came to interpret codes literally because initiative was hazardous. Thereby the whole regulatory mechanism calcified. In this situation it became customary for interest groups to arrange short-cuts -- actors who had worked together reached understandings on special arrangements which remained under cover "as among friends." It is likely that a substantial share of the upgrading registered by the 1960 census took place in this manner, outside, and not in strict conformance with the letter of the codes. (4)

Archaic practices and standards in need of overhaul were lent a new legitimacy by their explicit recognition within the subsidy pattern. Not only were local codes and regulations reaffirmed, but the FHA and BRA were additionally empowered to regulate the undertakings made possible by the

subsidies. By attempting to sit in (at a distance) on all decisions, the federal agencies appeared to place little faith in the ability of entrepreneurship at the local level. The amazing thing about SECD was not that rehabilitation of the gutted shells averaged \$12,000 to \$13,000 per unit (plus planning grant overhead and the many subsidies mentioned in Section IV C.), but that it did not cost more. However, the SECD model clearly overlooked something vital. To other redevelopers, who might have followed SECD's example, the subsidies appeared so tightly controlled as to be virtually self-constraining. <sup>(5)</sup>

In cases like SECD's, direct subsidies to small scale rehab sponsors produced narrow results. The sponsors viewed their task as implementing the legislative intent: standard housing. The fact that any change had to pass through several stages of review, rendering it "not worth the bother," discouraged the evolution of alternatives. A sponsor like Housing Innovations, attempting to embrace homeownership and resident participation in a broader view of the task, found quite a bewildering array of support programs. It seemed to promise so many types of assistance, yet only some programs were backed by adequate appropriations. HI found it a full-time job to maintain a realistic perception of what is actually possible under various programs, <sup>(6)</sup> and even then, the awards were made to the most influential or resourceful "grantsman," and not necessarily on the basis of sound conception. In response to the limited subsidies, some housing sponsors began to treat each other as rivals, seeking favor with the BRA as well as publicity in the newspapers, which only indirectly related to improved housing. Economists recognize this as non-monetary competition for a scarce resource: the subsidy.

The case of SECD illustrated how special additional incentives, and greater competence on the part of the sponsor succeeded in just balancing the increased constraints encountered in obtaining the incentives. The subsidies stimulated remarkably little upgrading.

### The Selected Rehabilitators

The disappointing progress of the non-profits set the stage for the BURP program. In the BURP case the federal incentives were escalated for a particular rehab model which placed limited faith in carefully selected redevelopers. The BURP model, however, was nearly impervious to the reasonable relocation and employment needs of the affected dwellers. Because of the scale of the undertaking, BURP was modified to tenuous acceptability only by raw political pressure, arising from a concerted effort by a coalition of militant blacks, respected civic action groups, and prominent business interests in the target area. Under the present federal incentive pattern, mounting constraints appear less than a step behind the incentives, consuming them before they confer the intended benefits. The futility of this approach as a prolonged housing strategy is evident in the case of BURP. The immediate gains, though real, are dwarfed by the massiveness of the incentives required to attain them. And while these modest achievements justify their immediate price tags only with difficulty, the latent costs have been discussed in Section IV F. These costs which register through such ways as the discouragement of other developers, resentment in the target population, and misled expectations

on the part of the general public, can only further diminish the long term net result. To many outsiders, the initial benefits are already outweighed by the continually surfacing legacy of costs.

Standards were put in a new perspective through BURP. On the one hand the program was based on the assumption that the condition of the rehabbed units was the prime determinant of their future life expectancy; and on the other, the regulators expediently treated standards in a cavalier manner, as if they were unimportant. In the present situation the FHA is neither able to conclusively test its premises, nor does it seem able to conceive alternative models for subsidization that incorporate incentives to maintain the resulting dwellings. A more useful premise might be that deteriorating dwelling conditions indicate market imperfections that need remedy in a more basic way, and that standards simply identify their locus.

Two paradoxes emerge in this light. We noted that in the normal FHA model, the redeveloper applies for assistance, and is regulated by the FHA. Under BURP, the role of regulation conflicted with FHA's interests of executing the program rapidly. Who then should regulate to see that dweller interests are not harmed? The City was influenced by BURP to stand aside. Here, where regulation was needed to prevent the harm of countless evictions and to assure adequate completion of the dwelling units, the agencies that constrained King-Bison and SECD looked the other way. Ironically it was the displaced dwellers and community groups, the resource-poor, that succeeded in regulating

the BURP model and prevented it from "going forward as planned." They felt seriously enough about BURP's shortcomings to "bite the hand that feeds them."

The other paradox is that the mechanism offered by BURP as an opportunity to investors in high tax brackets -- that of combining double-declining balance depreciation with tax shelter provisions and capital gains taxation rates -- is the same mechanism that some experts hold responsible for general deterioration and downgrading,<sup>(7)</sup> since it encourages rapid turnover and short term interest in the affected property. In terms of incentives and constraints upon the various actors, it seems incredible that this model, in the long run, could assist in conserving our housing stock. The BURP case showed that sharply increased incentives, to developers carefully selected for competence resulted in a burst of housing production when many of the regulatory constraints were waived. This is not surprising. That the long range effects upon others -- the autonomous upgraders, the under-employed, the dwellers, the displaced, all the influence poor -- that these effects could be ignored in the program design is an alarming indication of how well isolated from feedback present policy makers are.

#### SUMMARY OF PROBLEMS INHERENT IN THE PRESENT APPLICATION OF SUBSIDIES

The initial intent was to focus on inner-city upgrading fostered by federal incentives, to evaluate how lasting and widespread the effects were likely to be. In the absence of demonstrable strategies that would work in these

grey areas, it may seem unfair to criticize SECD and BURP for their failure to produce multiplier effects, spillovers within their respective neighborhoods, or institutional changes easing the process for autonomous upgrading. We have no absolute way of identifying decline that is irreversible or where the odds are too great. The housing fabric upon which these programs were attempted may have been obsolete before their inception; the political process may be unable (after the demolition of the 1950's) to consign an area to renewal, selecting instead to set an impossible task and inadequate means to housing sponsors. But we can nevertheless judge the effectiveness of these instruments on less grey areas -- granted the availability of supporting appropriations -- by their impact in these cases. It seems the problems they were to assuage would persist, and the ramifications generated by the mode of application of the present incentives would continue to recur.

Awareness of the nature of the problems attending housing conservation is clearly broadening, but still appears insufficient to deal with causal factors. Policy is symptom-oriented and disregards the implications of its own interventions. Here let us summarize the problems in the present subsidy pattern brought to light by the cases in Boston. Recall that we are concerned with their efficiency, their interaction with pre-existing incentives and constraints governing the delivery of housing services, and their drawbacks.

Initially it was presumed that incentives to maintain housing were not only generally sufficient but even substantial enough to support reassessment for improvements and upgrading. Municipal authorities attempted to regulate the condition of the housing stock through sanctions, and to channel the



behavior responding to the presumed incentives into acceptable forms. As seen in the King-Bison case, this ceased to work some time ago in parts of Boston, and the proliferating sanctions in themselves have become woven together into a severe tangle of constraints. Systemic inability to coordinate red tape is a factor contributing to the decline. This has two aspects which have not been addressed by the subsequent "remedies":

1) The ill-defined, multiple sanctioning jurisdictions are uncertain and often arbitrary in exercising their authority. The uncertainty is perhaps more constraining than the actual sanctions per se, leading unsophisticated redevelopers to hedge their bets, or "fear the worst."

2) This tangle manifests a responsiveness to pressure, i.e. the standards are more constraining to small individuals than to organizations with political clout or "bribing" power. Any observer can see, even without evidence, that corruption and influence-trading flourish in this setting, and are even legitimized. <sup>(8)</sup>

As chronic decline became evident, special federal incentives were devised, as seen in the SECD case. These were not intended to alter the existing regulatory practices, but to supplement the market incentives sufficiently to increase the output of housing services in spite of these local constraints. In practice, they contributed additional problems:

3) The federal incentives were not supplementary to the market incentives. Rather, they were completely independent of them. By going directly to the housing suppliers, these incentives have the capacity to distort

entrepreneurial decisions. Such subsidies shape the market through signals from the regulators without sure goals or adequate feedback from the consumers.

Such a system is risky. It may produce neither the output best for the consumers nor that desired by them. When it fails to achieve either -- as some low income dwellers feel -- it may alienate those on whose behalf the resources were spent.

4) The subsidies were too specific. It may have been the intent of policy-makers to over-ride aspects of the low-income housing system to achieve deliberate objectives. Where such objectives are known with certainty to be appropriate, they may be attainable through specific subsidies. But understanding about how best to provide low income housing is just evolving; programs are experimental. Here the multitude of separate highly specific subsidies confused the issues, because they fostered narrow responses and unhealthy rivalry rather than searching innovation toward the shared objective of improved housing.

5) The subsidies were made available in a self-constraining manner. Additional regulatory mechanisms were introduced to "review" and to "help" the production process. Rather than attempting to tinker or reform the economic market system and utilize its self-regulating aspects, policy-makers chose to empower political actors to judge specific applications and regulate the output, resulting in a timid, cautious system, hyper-critical of visible mistakes. Not only did FHA, BRA and BHA officials join the many city bureaucrats in judging feasibility, but expensive roles for professionals, as facilitating beneficiaries, came to be supported. This suggests, even without benchmarks for comparison, that SECD's approach was an inefficient way to produce more low income housing. VB-4

While many more actors came to be involved in the process of delivering low income housing (with vested interests in its continuation), the output continued to trickle.

Even before introducing the findings from BURP into the picture, it is already apparent that the trouble with these federal programs goes beyond inadequacy of funding.

Since generalizing from a few cases is hazardous, it is helpful when these insights are corroborated. Anthony Downs sees the administrative complexity of HUD/FHA programs as "serious enough to defeat the intent of the 1968 Housing Act all by themselves."

Administrative overkill . . . (and resulting delays) . . . cause most builders -- even the big ones -- to shun government projects. . . . Reduction of administrative complexity is especially crucial in programs dealing with unsophisticated low-income households, and in attempting to encourage participation by private developers while restricting their profits.

This shift in viewpoint would not be just a trivial concession. It requires an entirely new method of rewarding program administrators at every level. Now, no matter how many new housing units an official expedites, he receives the same reward. But one visible error costs him serious penalties. In contrast, administrators should be given strong positive incentives -- including spot promotions, financial bonuses, and special recognition -- for their net productivity (total output minus mistakes) rather than for avoidance of gross errors. This may require a revolution in Civil Service regulations, but it is long overdue at all levels of government. In fact, the most crucial innovations which any federal agency can make in the immediate future concern better ways to administer existing programs rather than new program designs. <sup>(9)</sup>

Again, awareness of the nature of the problem increased -- but not enough. BURP was intended to be a better way to administer existing 221(d)(3)

programs, but it is very doubtful that devising preferred treatment for a chosen handful of developers is a "better way." The BURP model created three additional problems:

6) As examined above, the quick product of BURP entailed such high production costs that sustaining such an approach is extremely unlikely.

7) It was very inflationary in terms of expectations on the parts of tenants, other redevelopers, other slum owners willing to sell to subsequent BURP, as well as the public at large. By nature, it has discouraged previously coexisting alternatives.

8) The hidden costs of dweller alienation or antagonism are only slowly surfacing, rendering maintenance difficult and placing the future life of the buildings in doubt. Altogether, the initially apparent benefits are already dwarfed by the slowly emerging latent costs.

From BURP we learn that better ways must clearly include more equitable procedures for all and that "housing" entails more than the simple, rapid upgrading of dwelling units.

## THE OUTLOOK FOR MORE PROMISING STRATEGIES

These Boston cases have focussed on the production of standard dwelling units through rehabilitations, with little attention to their subsequent maintenance. The next chapter will introduce additional evidence on efficiency in producing more standard housing. It will also explore more fully the interrelationship between

initial cost and long term operating cost, by examining a rehab process that encourages self-sustaining maintenance. Before turning to this alternative process, let us summarize promising strategies for overcoming the limitations evident in Boston rehab:

A) Clarify and rationalize constraints. Simply have one regulatory authority set standards and review permit applications, and charge it with the responsibility for coordinating fire, health, and building codes, as well as citizen participation requirements. It should be an entity separate from producers and subsidizers. Its behavior must be governed on a reward basis for facilitating production, rather than a penalty basis for visible mistakes. (10)

B) Consolidate subsidies and broaden them into one subsidy to cover all potential aspects of rehab operations. In place of piece-meal subsidies towards acquisition, interim financing, professionalized services, etc. -- each of which has constraining strings attached -- subsidize final products to be developed within market determinants of the cost of land, materials and labor, and under general market regulation (see A, above).

C) Deliver the subsidies to the demand side so they may complement market signals to entrepreneurs in determining the housing supply. Concentrate government effort on curbing negative side effects of direct consumer subsidies as they become evident in labor and location discrimination, inflation, etc. Clearly such subsidies must be introduced gradually, alongside open occupancy provisions and fair hiring practices to avoid further inflation of housing and construction costs.

D) Restore the presently missing entrepreneurial role, and provide for it in consolidating and rationalizing the incentives and constraints.

Housing is more than the rapid production of standard units at a point in time. It is a process that consumes resources as inputs and delivers housing services as outputs with varying degrees of efficiency. Under appropriate conditions, incentives exceed constraints, and the housing remains self-maintaining. Planners, specialists, and professionals attempting to regulate and channel this flow to reinforce preferred outcomes, must learn to work in ways that complement the forces in the flow. Present attempts to produce BURP without heeding the market signals governing the flow, simply reveal the limited amount of understanding experts have so far brought to bear on the problems.

Stemlieb, pondering the tenements of Newark, sought "the optimum bundle of carrots and sticks with which to secure upgrading of slum housing." He found there was no one policy variable, whether code enforcement, better financing, or tax relief that offered major promise in improving the maintenance of slum tenements or inducing their owners to rehabilitate. He judged the combined effect of these in a concerted effort would be considerable, but insufficient in the face of a weak market and lack of entrepreneurial interest on the part of major landowners. (11)

In spite of the fact that the buildings were multi-family tenements, he found "that the prime generator of good maintenance is owner-residence." He notes

"It is the resident landlord and only the resident landlord who is in a position to properly screen and supervise his tenantry." He is quite emphatic:

It is only this factor that produces the degree of close supervision required for good maintenance of slum properties. In addition, owner-residence provides a substantial bridge in the tenant-landlord discontinuity.

Notwithstanding the nature of tenement housing, Sternlieb's opinion is that

. . . this type of ownership pattern should be encouraged by financing aid which is not available under present legislation. It must, however, be coupled consistently with increased levels of municipal service in slum areas, vigorous code enforcement and, most important of all, appropriate advisory services for the relatively unsophisticated new owner.<sup>(12)</sup>

Chapter VI, the case of Better Rochester Living, illustrates such an effort.

FOOTNOTES - CHAPTER V

1. See section II C.
2. CHPA To Rebuild A City, preface.
3. Bernard J. Frieden, "Housing and National Urban Goals: Old Policies and New Realities," p. 3.
4. Even today, the Deputy Director of Mayor White's Little City Halls program will confide cases in interview like that of a young Irishman from South Boston, who spent many years with the FHA and is well-connected with the City. He has recently been able to find financing and create a number of new housing units in "Southie" (his area) using his personal influence in the ways described above.
5. The difficulty of achieving coordination between the local forces and those engaged by federal programs appears to be consistently underestimated in federal program design. The subliminal friction between the Boston Building Department and the BRA is so great that BRA endorsement of a non-profit's venture may aggravate the non-profit's negotiations with the Building Department. King-Bison's tribulations may well have been exacerbated by their well-known association with the BRA on other efforts. When political agencies like the BRA and FHA handle subsidies, such careful regulating is understandable. Private enterprise freely tolerates errors below a certain margin where the cost of tracing it down exceeds its value. Political agencies attempt to account for every penny, however, because the misspent pennies can easily be used to generate adverse publicity. The media and public opinion do not judge with the sense of proportion of economic enterprises.
6. Recall Fig. IV A. Overview of Federal Rehabilitation Assistance Programs. Once HI had developed relations with the various subsidizers, they were in demand as consultants, and finally issued an advisory report to Model Cities on the availability of various subsidies and their applications -- a thick volume.
7. Professors Jerome Rothenberg, Daniel Weisberg in conversation.
8. Processing shortcuts offered BURP by the Building Department were clearly a special concession to get the FHA program executed, and were not intended for just any rehabilitator. They increased the confusion attending King-Bison's efforts.



9. Anthony Downs, quoted by Urban America Inc., in The Ill-Housed, A compendium of recent writing and reports on National housing policy, (LWV, Washington, D.C., 1969), p. 42.

10. The New York Urban Development Corporation, known as Logue's UDC, embodies some of these principles. Its One stop regulatory system should be considered for adoption or adaptation; but its direct interrelationship with production seems unhealthy. As state agency answering only to state and federal guidelines, it has the power to override local code and zoning restrictions and avoid lengthy hearings normally conducted by various local authorities. As UDC's behavior attests, such unusual powers must be used with discretion. When coupled with special direct access to federal subsidies through superior influence, it can act unchecked by local considerations. Much like BURP, intense dislike of UDC in some quarters appears to stem from its combined producer-regulator role which enables autonomous action rather than from rationalizing the constraints.

11. George Sternlieb, The Tenement Landlord (Rutgers, 1964), p. xiii.

12. Ibid. Michael Stegman in "Slumlords and Public Policy," in the AIP Journal (November 1967), reviews The Tenement Landlord and stresses that in his view "It seems particularly unjust that families like these proposed resident owners, who have the economic and social stability to invest in and maintain such tenements, should be encouraged to remain in the ghetto, the one place they would probably choose to leave if given a choice." We should note that Sternlieb in no way suggests proscribing choice on the part of resident owners of the tenements.

### PART THREE - REHAB PROCESS LEADING TO SELF-SUSTAINING MAINTENANCE

The goals of upgrading declining areas and aiding low-income families are not necessarily complementary -- they may even conflict with one another. The Boston cases assumed that by upgrading particular buildings for rental in blighted areas, individual families would be helped. Through this the sponsors and agencies became preoccupied with standard housing as an end in itself. Better Rochester Living, Inc. (BRL), on the other hand, was founded to help low income families directly. By enabling them to become homeowners wherever they chose to live, these families contributed to the upgrading of the marginal areas into which they moved to rehabilitate houses for themselves. In the process they acquired the understanding to play an active role in maintaining their own homes.

BRL furnishes an illustrative application of a viable approach to declining areas in Rochester, corresponding to parts of Allston-Brighton, Dorchester, and Mattapan in Boston, rather than blighted inner-city areas. It succeeds in strengthening the housing fabric where it is wearing thin, rather than attempting to recreate it where it is already worn out.

The case of BRL illustrates how factors promoting low income dwelling maintenance can develop in a self-sustaining process. It is not presented as "The Answer" to low income housing, but as a reference point for developing alternative strategies. BRL is not a hypothetical or normative solution. It is interesting because it exists and has grown over the last five years. Our question is not "Can it work?" but "What are its limiting constraints?"

## CHAPTER VI - REHABILITATION FOR HOMEOWNERSHIP

### BACKGROUND ON ROCHESTER, NEW YORK

Rochester is a reasonably large city in upper New York State, near the shores of Lake Ontario. Its corporate limits include 295,000 persons, within an SMSA of close to 700,000.

The general prosperity of the surrounding area is noticeable. It has an agricultural base in fruit and produce, attracting considerable numbers of migrant workers seasonally from as far away as Puerto Rico. At the same time, Rochester is the industrial home of Kodak and Xerox. The city has a strong economic base, low unemployment, and it is said anyone willing to work can find a job.

Rochester has an extremely tight housing market, with a vacancy rate estimated to be under 1%. According to the 1960 housing census, the SMSA had 107,295 housing units of which about one-seventh were classed as substandard. This amounted to 15,785 units largely deteriorating, located principally in the inner city area. Since that time there has been a substantial amount of clearance under urban renewal for a tight inner loop highway, for some eye-catching commercial development within this loop, and for a relatively insignificant number of new apartments. The principal growth has been in the suburbs, while the substantial stock of single family housing ringing the center has absorbed those displaced by the renewal. Dominant in this housing stock are single family houses. At present large numbers of these units are suffering from "deferred maintenance"

due to high service costs throughout the area. Many are inhabited by their surviving owners who do not know where to find alternative accommodation, but a substantial number of these units is changing hands at any given time, in spite of the tight housing market.

These units sell for around \$7,000 without ever really coming on the market. The price reflects their indirect substitutability for smaller, newly built, suburban houses. Abandonment has not struck parts of the Rochester inner-city housing market, as it has in many larger northeastern cities. In common with these other cities, however, the construction trades are uninterested in rehabilitation. Working on scattered sites, on tasks with which they are unfamiliar, and which they are unable to program on a large scale, is too difficult for them. Apparently it is not the actual tasks that must be performed that are so costly; rather coordination and managerial overhead are an excessive burden upon so many fragmented odd jobs. The relatively few renovation tradesmen that exist are in such fantastic demand that one can get them "neither for love nor money." Dearth of housing maintenance services at reasonable prices is blighting some of the existing stock without affecting its structural soundness. This deferred maintenance is reflected in depressed housing values.

The BRL program bridges a gap in the present housing maintenance system which existing owners, unionized labor, and renters are no longer inclined to fill. Under the incentive of new ownership, certain families are willing to devote otherwise unproductive time into renovation of these dwellings. BRL merely harnesses and channels this drive into a particularly fruitful form both to the

family and to society. While the families engaged in the process are largely low-income, the process is simply a modification of the way middle income families and the well-to-do acquire and renovate existing houses. The modifications -- counselling, know-how in arranging BMIR financing, help in dealing with City Hall -- merely formalize the more loosely organized assistance that middle class families draw on among associates, friends and politicians. BRL widens the choices open to these families, rather than developing special products for them under subsidy. By creating new options for a sector whose range of choice is presently constrained, it is a market widening operation rather than a market substituting operation.

BRL does not pretend to "solve the housing problem" tackling neither the worst problems, nor the worst slums, but lubricates the turnover process. The principal benefits do not lie in the marginal amounts of money saved by having families paint their own rooms, seed their own lawns, or hang their own storm windows; they lie in the education each family experiences in doing these tasks, and which carries over into the maintenance phase and, many believe, into their other endeavors by transference.

#### REHAB MODEL WITH DWELLER PARTICIPATION

A simple flow chart of the BRL rehabilitation process is presented in Figure VI B.1. If we refer back to the corresponding chart for the general small-scale rehabilitation process (reproduced here in Fig. VI B.2.), we note a number of changes. VII

In that case the sponsor, SECD or King-Bison, was the principal actor. His primary problems arose from trying to reconcile the financing requirements with the conditions set by building and zoning codes. The dwellers only came onto the scene at the end of the rehabilitation process, having been planned for "by proxy."

In the BURP rehabilitation process (also reproduced here in Figure VI B.2.) the financing bottleneck was solved by beginning with 221(d)(3) financing commitments which were promised certain developers if they rehabbed certain types of buildings following special procedures. Dwellers, again, were planned for "by proxy."

Here, in the BRL rehabilitation process, the prospective dweller makes an application with the sponsor, BRL, and has a decision-making role throughout the entire process. He selects the actual property, thereby initially determining its "acceptability" to him. The take-it-or-leave-it approach in helping these families assures that the BRL services help them. No decisions on behalf of the family are made without discussion with them. BRL plays a supportive role in counselling and enabling the dweller to evaluate, select, rehab, and take title to his own dwelling. BRL also catalytically obtains financing which is eventually recorded in the dweller's name, but uses its influence to shield the dweller from arbitrary or discriminatory forces from the financier and others during the rehab process. BRL utilizes only one FHA subsidy to subsidize the overall process: below market interest rate mortgages under sec. 221(h). The dweller moves in early rather than after rehabilitation, but complete reconstruction is spurred by the fact that he cannot take title until the dwelling is accepted by the FHA. (1)

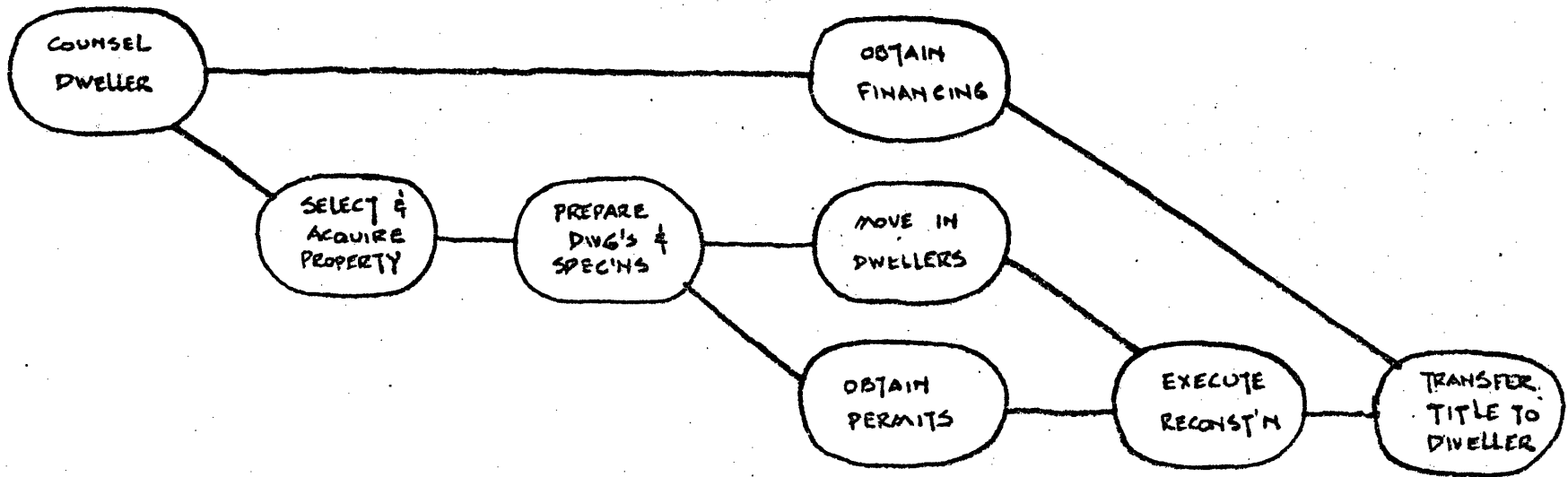
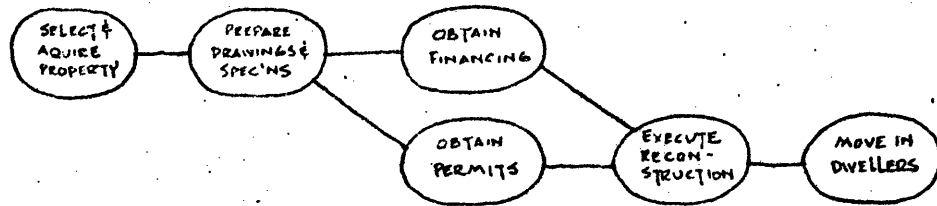
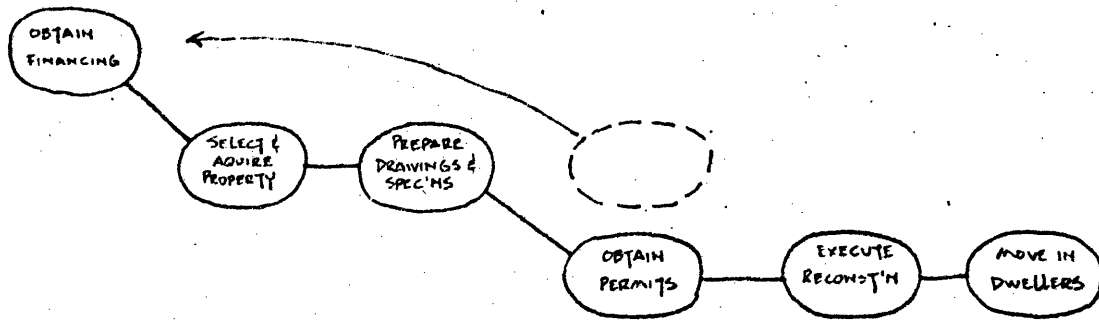


Fig. VIB.1. BRL REHABILITATION

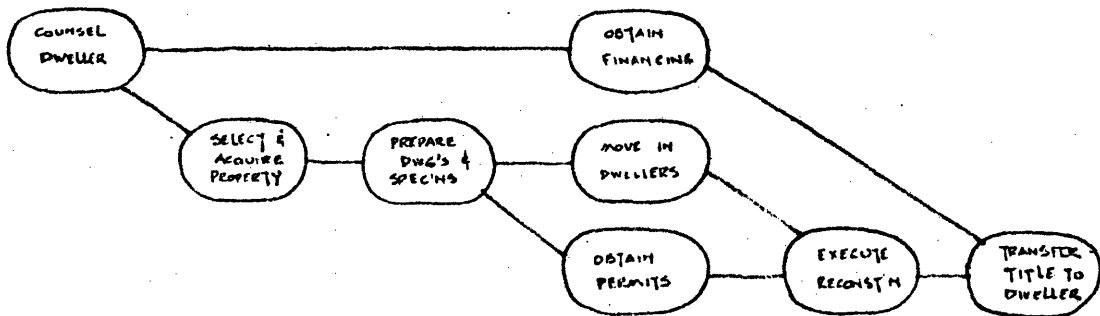
Fig. VI B.2. Comparison of Some Alternative Rehab Processes



SMALL SCALE REHABILITATION



BURP REHABILITATION



BRL REHABILITATION



## THE CASE OF BETTER ROCHESTER LIVING, INC.

### The Sponsor

Better Rochester Living, Inc. (BRL) was formed in 1964 in Rochester, New York, to demonstrate private enterprise preventive renewal, to counter blight of people as well as blight of housing. At present, BRL has reached the scale to provide homeownership opportunities to 300 limited income families during 1970, but the demand from families seeking to join the program is several times as large. The board of BRL is made up of a cross section of the Rochester influentials.

The staff of ten is both experienced and indigenous. It includes alumni of the program in paid positions. Each staff member, whether construction supervisor, administrator, or clerical worker continues learning by direct experience; college degrees are irrelevant.

Myers, the director, describes himself as a "black sheep from farming," but has worked with migrants, in construction, with real estate, and has a knack for business and marketing.

### The Rehabilitation Process

BRL is weaving physical and social rehabilitation together, with the physical strand serving as vehicle for the social strands. The approach begins with families who desire to own houses, not with houses per se. In this discussion we will

follow the set of operations in the housing rehabilitation process (Fig. VI B.1.) to see how they support the social action.

### Counsel Dweller

The BRL approach seems valid for any stable low income family that chooses to own a house in Rochester and is willing to devote a substantial number of spare hours to earn downpayment.

The typical entering family consists of two parents, several children, with a steady \$4,500 a year or better income, but is over-extended in installment buying and often has been garnisheed. It cannot make ends meet. Applicants used to come to the program by referral from social agencies and realtors, but more recently word of mouth has broadcast its success. Frequently families have been talked into applying by an alumnus who found that BRL offered him a way out of a similar mess.

No family is turned away due to its present situation. To qualify for the program, it must demonstrate ability to live within its means, whatever they are. In effect some families screen themselves out or do not apply because they simply have insufficient resources. BRL's reputation of facilitating homeownership for monthly outlays smaller than present rent for many of the families brings in a flood of applicants.

The first step is to reduce the outstanding debts to manageable proportions -- which averages five months, but can take up to three years of patient counselling. BRL orders a credit check made on the family. Working from this, committed

volunteers, mostly concerned suburbanites, counsel the families on a one-to-one basis. The counselors acquire a keener awareness of the problems confronting those in poverty; the families learn to budget. <sup>(2)</sup> At the same time BRL refers special problems to the appropriate agency whenever possible, and follows up the results.

When outstanding debts are reduced to a reasonable proportion of income, BRL gives the family credit clearance, so that it formally may begin house-hunting. This is the only hurdle for entry into the program, and its attainment is left up to the family, with counselling offered on a take-it-or-leave-it basis. <sup>(3)</sup>

#### Select and Acquire Property

With BRL credit clearance attained, the family begins househunting with a conventional realtor, to whom BRL indicates the appropriate price range. When the family has selected a house, BRL examines the dwelling closely to evaluate its feasibility for rehab to FHA specifications, and sets out to acquire it on behalf of the family.

During 1968-1969:

Acquisition prices average around	\$7,000	±	\$1,000
Rehabilitation costs, incl. BRL services	3,700	±	1,000
Total costs	10,000	±	1,500

The low acquisition price is the result of shrewd bargaining on BRL's part. The units are not listed on the market at that price. BRL's inspector knows the

codes and impresses the previous owner with the details of all the remedial tasks. Before acquisition, BRL works out with each family exactly what has to be done to the house. Know-how of rehabilitation costs is essential to avoid overrunning the mortgage limits under FHA. These, in turn, determine the upper limit on acquisition price that BRL will pay. Most of the houses are obtained directly from willing sellers who have excessively deferred maintenance, but BRL's ability to pay cash on the spot coupled with its presumed influence to bear down on code violations enables it to buy the property at reasonable prices. <sup>(4)</sup> The BRL approach deals predominantly with deteriorated but previously inhabited dwellings. They are generally single family detached, nine room frame houses on tight lots; also some are duplexes. BRL has dealt with some boarded up units, entailing slightly higher rehabilitation costs, which were simply offset by lowering the initial acquisition price.

The houses selected by the BRL families cluster into several neighborhoods in Rochester which are both physically and socially grey areas. Some of the neighborhoods are racially mixed, but it is unclear whether these are transitional or balanced. The participating families (black and white) are joining others migrating to these areas.

When BRL is set to acquire the property and has negotiated a price, the FHA inspects it. By now, FHA approval has come to be a relatively quick, automatic process. Next BRL has the title searched and then acquires the dwelling.

### Prepare drawings and specifications

Conventionally, drawings and specifications are executed by the architect to reconcile the owner's intentions with the tasks the contractor agrees to perform. Between such a trio of actors, a fair amount of documentation is required to hold them all in agreement. In BRL's case, the owner is the contractor. Such documents become internal memos within one and the same organization and an architect is not needed. In the initial assessment of each house prior to acquisition, BRL executes a detailed work write-up. As indicated above, the family (as future owner) participated in the determination of what needed to be done. Since the roles are simplified, a detailed job description can serve as all the documentation that is necessary. Using it as a basis, the family and BRL work out and sign a work agreement specifying which tasks in reconstruction the family will do to earn its closing costs. In effect, the family assumes a temporary role as subcontractor to BRL, the contractor and interim-owner.

### Obtain Permits

The local authorities share BRL's goals of bringing deteriorated units up to standard and have come to respect its methods, so obtaining permits is a pro-forma matter. Plans are not even required, since the proposed work entails neither structural changes nor changes in occupancy. This eliminates the need for an architect or engineer. (5)

### Move-in Dwellers

Interim holding costs (taxes, interest, utilities, insurance, watchman) frequently present a burden in rehabilitation, particularly during the period when the building is vacant. BRL surmounts this by making the house available for move-in as soon after acquisition as possible (two weeks average). Reconstruction that would severely inconvenience family living is executed immediately before its arrival, but even if the dwelling is still substandard the family is eager to move in. There is no need to obtain a special permit for occupancy from civic authorities as is required when violations have been served or condemnation instigated. Holding costs are minimized because the families occupy the units and make payments to BRL in lieu of rent. Projecting themselves into an ownership role, they tolerate much that would irritate a conventional tenant. Their relationship to BRL as landlord during the rehabilitation period is not the typical tenant-landlord relationship, since they are also in subcontractor and trainee roles. Not only are there net benefits to both BRL and the future owner by his presence during rehabilitation, it is the cornerstone of the program.

### Execute Reconstruction

Rehabilitation tasks typically include new or renovated heating and electrical systems, plumbing, modernized kitchen and bath, and extensive interior and exterior refinishing. As indicated above, rehabilitation costs run \$3,700 ± 1,000, of which \$700 covers BRL's technical and advisory services to the family. Repair costs

per house average \$3000, but the way BRL supervises and executes the job, this money is several times as productive as inputs into conventional housing renovation. Subcontractors on BRL payroll (other than the family) are utilized strictly for the major tasks (installing new mechanical equipment, electrical service, plumbing, etc.) accounting for up to 25% (\$750) of the repair costs. "Sweat equity" -- labor contracted for by the family (painting, refinishing, planting) -- covers 30% of the repair costs and earns the future owners around \$900, which BRL applies to their down payment and closing costs. The balance goes for materials, cabinets and fixtures, which are obtained at discount directly by the family from the suppliers. BRL sets up accounts for each house that avoid middle-men mark-ups and the percentages towards overhead and professionals that conventionally pyramid basic costs.

Since closing and ownership are contingent upon completion of the specified rehabilitation tasks, the family is spurred to complete them; since the future owner is building his own equity, he generally errs on the side of doing more than required. BRL's technical assistance and job supervision to the family is provided by alumni whom BRL has hired to teach the new families.

### Financing

As the flow chart (Fig. VI B.1.) indicates, the financing operations have been separated from the rehabilitation process. Nevertheless they are complex.

One of BRL's principal contributions to the limited income dweller lies in its catalytic role in handling the complexity.

To sustain its operations, BRL requires three different types of money:

- 1) mortgage commitments for the families served by the program
- 2) interim financing for acquisition of properties, and
- 3) a self-sustaining pool to cover BRL overhead

1) Mortgages upon completion of rehab to FHA standards must be lined up to make the process work. At present these are provided by FHA 221(d)(2) and 221(h) assurances, which serve to obtain \$9,500 - \$12,000 mortgage loans from local savings banks and FNMA respectively.

2) Interim financing is provided in three ways. Each family ties up \$9,000 to \$11,000 in short term credit, depending on the size of the house, its initial cost, the necessary rehabilitation, and the red tape in obtaining the final mortgage commitment. Most fluid is the \$1 million line of credit with the local banks. But this has a drawback: BRL pays 8 1/2% interest on it, which increases the family's monthly carrying costs. The second way utilizes zero interest loans from the New York State Development Fund for interim financing, but obtaining this money entails red tape and time costs, such as court orders at time of sale, etc. which wipe out the apparent advantage of 0% interest. Finally, the third way is a \$120,000 loan to BRL from the Martin Luther King Fund for this purpose. This can only support a turnover of twelve houses annually, but is otherwise ideal.

3) From local contributions, BRL has built a fund that enables it to help 120 families per year. Each family repays its share of BRL's outlay and overhead on its



behalf when it assumes the FHA-insured mortgage at closing, replenishing the pool.

There is no explicit way of entering the substantial subsidy of voluntary counseling, which is qualitatively different from anything available on a paid basis.

#### Transfer Title to Dweller

After the family is released for househunting, it requires between one and five months to acquire an appropriate property; the subsequent period of rehabilitation takes the family 10 to 14 months; one more month elapses before the final closing, to allow FHA to make its inspection. Altogether it takes the family 12-20 months from househunting to homeownership, but it is able to move in directly after acquisition, within one to five months.

Under sec. 221(d)(2), the FHA insurance commitment is obtained in the name of the family, but this does not guarantee temporary financing. Under sec. 221(h) the indirect way in which the family obtains the BMIR mortgage is worth noting. The FHA makes the commitment to BRL as the contractor or housing supplier. BRL is responsible for carrying out the rehab. Only when the family is no longer a credit risk, and the unit is no longer substandard, can closing occur. After a final BRL inspection, the FHA inspects the unit. Thereupon the title is transferred and the low interest mortgage is registered in the new owner's name.

Clearly there is a lower limit to the income groups that 221(h) or 235(j) can reach. The lower range of BRL incomes, of \$4000-4500, illustrates this statutory limit. Even with substantial assistance payments to bear the high interest

rates, the family cannot carry more than a \$12,000 mortgage under present market conditions. BRL, however, enables them to get a surprising amount of housing for that \$10,000 to \$12,000.

In the final tally, the tenant-become-homeowner does extremely well. Due to the assistance he has received, and the arranged long term mortgage, he is embarked on homeownership, developing equity in his property, yet only spending an amount comparable to what he used to spend on rent. At the same time the range of opportunities open to him as homeowner in our society is considerably wider.

#### Subsequent Maintenance

For those familiar with the way in which these families lived before, the transformation is remarkable. Some have become almost fastidious.<sup>(6)</sup> Others simply exude confidence and competence as they tackle ordinary home repairs in a thoroughly middle class manner. Figures on actual maintenance expenditures are difficult to obtain, much as they are from other homeowners. An owner may recall specific bills or services purchased, but there are countless tasks that he performs and never counts. It is important to note, however, that maintenance as a problem never reaches the BRL owner's awareness, it is acceptable to him. From the policy-maker's viewpoint, the houses are self-maintaining.

An interesting by-product of the operation lies in the neighborhood spirit generated by the BRL families. In the racially mixed residential areas strong neighborhood organizations are springing up, which exert influence on property standards in the area.<sup>(7)</sup>

The Scale of the Program

The BRL process resembles a pipeline, with cohorts of families moving through it.

Figure VI C.1. BRL Activity Status as of Dec. 31, 1969

Program		1	2
Under FHA sec		221 (d) (2)	221 (h)
		7 1/2% int.	3% int.
		local banks	FNMA
Families beginning & in counselling	780		
Families credit problems resolved, house-hunting	317		
Families found houses, in FHA processing	36	36	
Families, FHA commitments received	68	33	35
Houses owned by BRL, families remodeling	82	36	46
Houses completed, families taking title	119	104	15
	—		
Total families in BRL Program (incl. counselling)	1402		

From the table above we can see that over 300 families are entering the house-hunting phase, and that within the next year about twice that many will

be ready to join them. It takes time for over-extended families to pay off their credit balances.

The drop-out rate after selecting a house has been under 1% and there have been no defaults among the families that have taken title. The few drop-outs resulted from divorce or illness.

The pipeline is constrained by 1) the number of available mortgages, and 2) the staff to supervise rehabilitation. BRL is attempting to overcome both by obtaining additional HUD FHA mortgage commitments, seed money, and an expanded line of credit to support self-sustaining operation at a higher level of output. Sharply speeding up transition time of each family would go against the objectives of the program.

#### Summary of Actors

To recapitulate the program, it is useful to summarize the actors engaged by the process.

Committed volunteers counsel the families and refer them to other agencies, as appropriate. Once the family seems ready to BRL for homeownership, it chooses a suitable house through a realtor, familiar with BRL's criteria. BRL inspects, does cost estimates and work write-ups, and buys the house from the prior owner on behalf of the family.

The family subcontracts with BRL to do a certain portion of the rehabilitation (painting, planting, refinishing, etc.) as "sweat equity" to cover closing costs and

down payment. Other subcontractors handle the major rehabilitation under the supervision of BRL as interim owner.

BRL obtains interim financing from 1) local banks, 2) from New York State Development Fund, or from 3) Martin Luther King Fund -- all entailing more or less red tape, lawyers, etc.

Final mortgage commitments are negotiated by BRL between the family and FHA under 221(h) or 221(d)(2) which again involves local banks to issue long term mortgages.

BRL seeks to avoid expensive professional services, like builder contractors and architects with their concomitant overhead. Instead it sets up charge accounts for the families with local building material suppliers.

As is apparent upon reflection, Myers has blazed a path in the multiple interactions with all these actors in ways that offer enough to each and every one to engage their compliance.

The approach developed in Rochester uniquely combines four separate goals: 1) rehabilitating deteriorating and boarded up houses and arresting physical blight in areas presently threatened, 2) guiding and enabling low income families to remake their lives and thereby their surrounding neighborhoods by opening new opportunities, 3) furnishing a meaningful role (through 1:1 counselling) to the previously unutilized middle class who share a general concern for the city but were unable to discover what part they could play, and 4) innovating and developing alternatives in the Rochester housing system for ongoing institutions to adopt or adapt. Indeed, the uniqueness of BRL lies in the joining of so many different roles and skills into a

into a complex, but coordinated attack on opportunity deprivation -- in ways that vastly broaden the understanding of all actors touched in the process.

### Evaluation in Terms of Incentives and Constraints

To understand more fully how the final result is arrived at, it is useful to examine in greater detail the carefully orchestrated roles, incentives and constraints underlying the process.

1) Distinct and potentially separate roles are simplified by combining them in one actor. BRL is sponsor, developer-contractor, and owner of the dwelling; it largely assumes the conventional role of architect and lawyer as well. The dweller is night watchman, subcontractor, and trainee, while he perceives himself as owner, having selected the building. Through this interlinkage of roles, potentially divergent interests are held together, and friction from possible conflicts of interest is avoided.

2) Total number of actors engaged in the overall process is minimized. The services of architect, lawyer, and other professionals or middle-men are avoided.

3) The number of actors engaged in any given operation is minimized. Where too many actors would jeopardize a given operation, it is broken into discrete steps. For example, in Acquire Property, prospective dweller, previous owner, realtor, and BRL each have distinctly defined roles. In selecting the property, the dweller deals with the realtor; in acquisition, BRL negotiates with the previous owner.

4) A given man stays "on the job" carrying out serially linked tasks. The man who starts on a given operation stays with it, as well as those linked to it. He who

does the initial property evaluation, does the work write-ups and provides the technical assistance to the family. BRL follows this to a much greater extent than is customary in more bureaucratized organizations. Similarly, "contacts" in the municipal and federal bureaucracies made in previous efforts, are developed and built upon, to avoid the education costs of starting afresh.

5) The dweller carries out many of the tasks. Bearing in mind that each operation involves effort and time costs that must be borne by someone, be it owner, taxpayer, or unwitting subsidizer, it may seem logical to let the dweller do all that he wishes and is able to. Yet strict cost-effectiveness considerations argue for subcontracting many of the tasks to professionals. The issue has at least three interlinked dimensions which require discussion: financial, emotional, and longer range considerations.

Financial. In certain operations, it is simply cheaper to train the dweller and provide him with the tools, than to rely on existing trades. In many tasks, the principal costs are getting there, sizing up the job, going back for tools and materials, or even coffee breaks. Plumbers are notorious in this, but even carpenters are guilty. In rehab there are many minor jobs that must get done, and in subsequent maintenance, most are minor. As specialization continues, training the dweller will become even more rational than it already is for many tasks.<sup>(8)</sup> Other more major tasks, like Redoing the Heating System are sensibly delegated to a professional. The know-how and judgment to enable the dweller to decide when to call the specialist, whether to trust his word, and what to do himself must be developed, however.

Emotional. Contractors simply do not do some things the way the dwellers want them done. (9) The would-be owner will undertake them as a hobby, devoting leisure hours to the task if he chooses, whereas the contractor would simply "rip it out" or "board it up," knowing it was more "rational" than spending chargeable time on a labor of love. BRL simply offers the future owner the freedom to be "rational" or to exercise his love. Herein may lie a critical difference between homeownership and low income housing production.

Long Range. Even when his participation in a given operation cannot be justified within the initial cost, it is frequently rational as education. In the long run the dweller copes with recurring situations that professional maintenance/management services find impossible to handle at reasonable cost. The BRL dweller's roles as trainee and subcontractor equip him to make his own future entrepreneurial decisions.

For his efforts, the dweller draws benefits in a variety of ways. As subcontractor, he is credited at the time of closing with the cash equivalent of the labor inputs he furnished. As future owner, the fruits of his extra efforts also accrue to him; and as trainee, he has learned skills that will save him money in the long run, or even that he can market. He is largely recompensed in ultimate benefits, rather than immediate pay -- a situation analogous to education.

The impact on the dweller of selecting his own property must not be underestimated. As he makes the choice from the selection provided by the realtor as market agent, he makes personal trade-offs between many complex parameters.



including size, style, number of rooms, neighborhood, and access to transportation, that are difficult for another to make on his behalf. More important, even if the identical selection were reached by another process, the situation would be different because he would not have experienced the trading-off among alternatives. BRL offers responsive participation in decision-making to the dweller.

## EVALUATION OF THE BRL APPROACH IN ITS PRESENT CONTEXT

This section introduces additional evidence for contrast so that three aspects of the BRL approach can be more fully understood. The aspects for further examination are 1) the unusually low rehabilitation costs; 2) dweller education towards maintenance, and 3) FHA constraints upon BRL. Each requires separate development.

### BRL Rehabilitation Costs

Here we investigate two contrasting rehabilitation models.

#### Comparable Rehab for Rental

The efforts of CPT Housing Corporation to rehabilitate under conventional FHA practices furnish an interesting contrast to BRL. The CPT Housing Corp. (CPT) was set up as a non-profit venture by the Third Presbyterian Church of Rochester. <sup>(10)</sup> CPT rehabilitated nine houses, intermixed among those

VID-1

of BRL. They are similar houses, neither larger nor smaller, on the same streets, done for a similar income group at roughly the same time. However, the project was designed for rental, and executed conventionally by a contractor, resulting in substantially higher costs. The physical products are neither better nor worse than BRL's.

Figure VI D.1. presents the cost breakdown on the nine CPT houses. It is a direct quote from CPT's May 1968 Newsletter.<sup>(11)</sup> Below it, for comparison is Figure VI D.2., the costs for the nearby BRL houses.

The CPT average purchase price of \$8600 is a good \$1600 higher than BRL's average. This can be due to inexperience or to CPT's reluctance to "push" previous owners too hard, but it does not appear to reflect substantially more "house" at the outset.

CPT's average rehab expenditure of \$8000 per unit is more than double BRL's average direct expenditure of \$3400 on equivalent houses. To this point CPT has already invested an average of \$6000 more per house. In addition, CPT incurred professional fees and financing costs averaging \$1940 per unit; BRL provided comparable services, plus keeping rehab costs down, out of an average of \$640 in overhead. Cumulatively, CPT spent over \$9000 more per unit on initial rehab costs, without apparent impact on the unit.

There is no evidence of higher "maintainability" having been purchased through CPT's rehab. Maintenance cost figures are not available, but there is a consensus in Rochester that units for rental to families like CPT's entail higher maintenance expenditures, leading to their inclusion in the Rochester Housing Authority's leased housing program.

Fig. VI.D.1.C. P. T. HOUSING CORPORATION

## NEWSLETTER

## FLASH

At long last the first C.P.T. Housing project is finally concluded. On April 25, 1968 the 35-year 3% mortgage on the nine C.P.T. houses was recorded in the Monroe County Clerk's Office. Until Thursday, C.P.T. has been paying 6% interest on the money borrowed to purchase and rehabilitate the houses.

The sad statistics are:

	BR	Purchase Price	Rehabilitation	Pro Rata Architect, Legal, title Expense	Pro Rata Financing Expense	Total Cost Per House
72 Arch St.	6	\$10,500	\$12,500	\$ 570	\$1,370	\$ 24,940
73 Second St.	5	8,500	8,953	570	1,370	19,393
59 Fourth St.	4	8,900	6,245	570	1,370	17,085
25 Magnolia St.	5	7,500	9,292	570	1,370	18,732
44 Garson Ave.	4	9,900	5,225	570	1,370	17,065
419 Flint St.	5	9,500	10,910	570	1,370	22,350
70 Lenox St.	4	6,900	6,711	570	1,370	15,550
12 Gladstone St.	4	6,000	7,951	570	1,370	15,891
502 Flint St.	4	10,000	4,213	570	1,370	16,150
Total		\$77,700	\$72,000	\$5,130	\$12,330	\$167,160

Fig. VI.D.2. Comparable BRL Houses

Address	Purchase Price	Rehab Costs	Pro Rata Overhead	Sales Price
71 Arch St.	\$6,800	\$3,500	\$600	\$10,900
67 Arch St.	7,500	3,400	600	11,500
48 Fourth St.	6,700	5,409	700	12,809
31 Garson Ave.	6,900	3,500	700	11,100
43 Garson Ave.	7,200	3,500	700	11,400
59 Garson Ave.	7,000	3,110	600	10,710
389 Flint St.	5,000	4,650	600	10,250
432 Flint St.	7,000	2,165	600	9,765
499 Flint St.	7,500	3,375	600	11,475
35 Lenox St.	7,000	3,250	600	10,850
36 Lenox St.	7,500	2,850	600	10,950
39 Lenox St.	6,500	4,874	700	12,074
47 Lenox St.	7,020	2,075	600	9,695
56 Lenox St.	6,800	2,755	600	10,155

CPT was not chosen as an extreme example, but simply because it offered cost figures for comparison. It reveals the conventional pattern of rehabilitation presently fostered by the federal subsidy system. The CPT approach is standard for a non-profit, church-sponsored effort. The Corporation bought the houses and contracted out the rehabilitation. Not only was there a separate contractor, but other professionals like architects and lawyers played a role in facilitating the rehabilitation.

Upon completion, CPT placed families in the houses, but market rents were inadequate to cover the initial costs. CPT had overspent on rehab. Each actor felt he had rendered legitimate services and was entitled to his fee. The principal headache was how to finance the completed project, since it required a substantial subsidy.

It turned out it was not necessary for the sponsoring church to subsidize the CPT effort. A member of the church was also director of the Rochester Housing Authority. He was instrumental in lining up section 221(d)(3) BMIR (below market interest rate) financing to cover the initial expenses. But even that was insufficient to make the rents acceptable. Further subsidies to cover operating expenses under the leased public housing program finally enabled families to occupy the units.

It is important to recognize that the belief in the necessity of more and more subsidies is structured into the approach fostered by present federal housing legislation. Aided by facilitating beneficiaries -- qualified professionals and recognized contractors performing legitimate services -- the sponsor finds himself entangled in a VID-

web leading to such high initial costs that only substantial subsidies can rescue him. Efficiency on his part is not encouraged or required. Influence obtains the subsidy.

### Publicly Sponsored Rehabilitation for Ownership

The Rochester Housing Authority, aware of BRL's success, has considered developing a publicly sponsored rehabilitation effort which would turn over completed houses under section 235 subsidy to owners who could not or would not choose to participate in the rehabilitation. In interview, <sup>(12)</sup> the RHA's director, Robert Siprell, outlined a homeownership program which he felt would have broader appeal. Closer inspection reveals that a public agency cannot offer many of BRL's advantages. Figure VI D.3. lays two models side by side, BRL (private) vs. RHA (public). Both only cover initial costs. Note how the RHA process requires more expenditures to execute the equivalent quality of rehabilitation because it is public, and thereupon because it engages conventional trades and facilitating beneficiaries.

Some of the points in the comparison require more detailed scrutiny.

Acquisition: There is much disagreement about the value of existing property. Constraints and interests of the actors distort the "willing seller-willing buyer" concept in declining areas. Private interests assess the value of these properties through the demand for them and the opportunity to alter them for resale. BRL operates within the confines of market resale, and determines acquisition costs by subtracting the costs of its efforts from the resale value. Public interests are more influenced by potential impact on tax appraisals and "fair price" as interpreted by the press and politicians. The RHA ignores resale value. <sup>(13)</sup>

Fig. VI.D.3. Privately and Publicly Sponsored Rehabilitation for Home Ownership

	BRL - Myers (private)	RHA - Siprell (public)
Acquisition costs	\$1000 - 3000 lower than public authority because BRL knows rehab costs, subtracts them from resale value, allows only slim margin  "code enforcement" can be used with discretion through informal influence patterns to bear on absentee owners	"fair market" appraisal required by experts, to see the original owner is not shortchanged, tax appraisals are not undermined  "code enforcement" must be impartial, by act of legislature, allowing astute slumlord to hide
Rehab Costs		
1) Materials	BRL passes wholesale, contractor prices on to dweller	normal retail mark-ups charged against project; more material and waste inadvertent
2) Labor	dweller willingly overrun on contracted commitment because benefits accrue to themselves	prevailing wages and labor's normal predisposition "not to overwork" are present
3) Overhead	conventional percentages and overhead trimmed from budget through tight administration, commitment and no professionals	percentages for overhead, profit, contingency all pyramid the price; presence of professionals architects, lawyers, paid counselors, etc. - part of package
Holding Costs	dweller eagerly moves in, paying "rent" for "substandard accomodation" which he willingly accepts; no unproductive idle time while holding empty property	RHA never moves family into such "substandard housing" ; "unfair to the family, and the public wouldn't stand for it."; i.e. empty units for a time, while contractors rehab
Resultant	\$11,400 house priced within market	\$15,400 house priced in excess of market, preventing owner from selling or moving
Mortgages	235(j) with assistance payments to pay off \$11,400 sales price over 35 years	235(j) with assistance payments to pay off \$15,400 sales price over 35 years

Code enforcement: BRL can use discretion in bargaining to obtain a feasible acquisition price by selectively demonstrating its awareness of codes. The RHA, as public agency, must appear impartial. Where code enforcement is used to bring units onto the market for rehabilitation, it must be broadly applied. This allows the shrewd slumlord to go into hiding, while the unwitting resident owners stand exposed. (14)

Rehab costs: General upgrading is largely handled by small, experienced contractors without drawings, specifications or competitive bidding. Conventional wisdom holds that uncertainties in rehab are greater than in new construction. This may reflect inexperience on the part of bidding contractors coupled with practices (bidding) and professional skills called for under federal guidelines. The dominant construction industry is simply geared to new construction, and rehabilitation is not in its acquired repertoire. BRL, having acquired the capability, comes closer to its preliminary work estimates than most contractors in new construction. The accepted practice in prevailing construction of adding percentages to every bit of materials and labor compounds the cost. On the basis of prevailing wages and practices the market has already determined that rehab of these units is not feasible; but whether existing practices or the existing stock must be scrapped is indeterminate.

Holding costs: A public authority cannot move dwellers into substandard units; a private effort like BRL is not constrained in this way. In dealing with a previously occupied substandard unit, the rehabbing family can move in when it wishes -- there is a turn-over in other substandard units all the time. A BRL family willingly covers the holding costs on such units since it thereby can occupy better housing than that VID-7

delivered by slumlords. Ingeniously this model avoids the biggest obstacle to conventional rehab: crippling holding costs.

Resultant: Thus when we come to compare the final product, the results on an objective basis are indeterminate. Under section 235, housing cost to a \$4800/year family of three would be identical. <sup>(15)</sup> Similar to CPT we have comparable units, side-by-side; the ones by BRL requiring \$11,400 mortgages, and the ones by RHA requiring \$15,400 (or higher), but having employed more labor at prevailing wages, services and professionals, as well as giving the original owner a better break.

The BRL example illustrates how private allocation in self-interest found a lower cost route to the objective: a house rehabbed to FHA standards. The RHA example takes note that not every family can or wants to rehabilitate their own house. As a public agency, however, RHA is poorly equipped to do it for them at low cost. It requires competitive bidding and involves professionals, and cannot act flexibly to respond to unusual opportunities. RHA's nearness to roles regulating in the public interest prevents it from pursuing the least cost route guided by self-interest.

It is extremely important to note the market context for this illustration. The units presumably deteriorated initially because conventional maintenance within market incentives was unfeasible. BRL was able to link the subsidy of BMIR mortgage financing with perceived net incentives to the necessary actors to produce upgrading within the confines of market resale value. RHA is not able to do this. The significance of this critical difference is discussed further in section VI D.3., below. VID-8



BRL illustrates unusual efficiency in orchestrating incentives and constraints to various actors, but it would be senseless to build a special program around its approach. It simply constitutes a pragmatic response to the opportunities and obstacles in the path to the family's goal, and it must be free to alter in response to shifts in these. Public policy should encourage the evolution of such pragmatic responses, rather than attempt to regulate production through guidelines outlining preconceived variants. CPT and RHA require more subsidies to cover inefficiencies in their allocation.

From this part of the case we have learned that private allocation has distinct advantages, and again that the role of producer conflicts with the role of regulator. We do not conclude that resident-ownership and "sweat equity" are essential; we simply observe that these can coordinate and rationalize the available incentives so that upgrading is still possible in areas judged marginal by the market.

#### Dweller Education Towards Maintenance

The BRL case has already stressed that while maintenance costs of the families are unknown, they are viewed as acceptable by the families.

The director of CPT's rental rehab, George Bridgman, found that management and maintenance were a much more serious on-going problem than initial costs. After CPT, he came to play a leading role in Rochester Neighbors (RN), a group in close touch with BRL. This effort parallels BRL in attempting to provide rehabbed houses for rental to low income families. Until recently this rehabilitation has been supported by Leased Housing agreements with the Rochester Housing Authority, but

then the FHA began to discourage use of double subsidies. Coupled with the tight money market, Rochester Neighbors' efforts have now been curtailed.

RHA collaborating with RN was, in effect, a joint venture in rehab. Rochester Neighbors, adapting BRL's counselling strategies, attempted one-to-one counselling with their families, focussed on spending. Families were told, but did not come to understand what their role in maintenance might be, nor did they experience incentives to carry it out. Siprell, director of the Housing Authority, is proud of the scatteration in the public housing of Rochester, made possible by placements in RN's units. A concomitant drawback, here too, lies in the high maintenance costs. Their causes appear as indeterminate as they were in the Boston cases. (16)

In Siprell's view these are inevitable with scatteration and have little to do with family behavior. He argues that government subsidies to cover only the initial mortgage are insufficient to provide low income rental housing; the upkeep expenses of the housing must be underwritten by subsidy as well. Although RN and the RHA face unfeasibly high costs in maintaining the scattered rehabs, both Bridgman and Siprell see no way of restructuring the incentives under the present system so that tenants would strive to reduce costs. (17) Bridgman and Siprell are aware that BRL is not having such maintenance problems. Siprell has even attempted to copy aspects of the BRL effort, and protests that he sees the validity of Myers' approach, but neither of them has effectively been able to relate one-to-one counselling or "sweat equity" to their predicament. Federal guidelines and their underlying spirit seem to preclude the evolution of a suitable restructuring of incentives to the tenant.

They feel the only solution lies in extending the subsidies presently promised by the 1968 Housing Act through sufficient appropriations to meet all comers. The long term costs of this "solution" would be prohibitive. If the CPT, RN, and RHA efforts can be taken as references, the price of extending present subsidy patterns would not only be very high, but it would be as inflationary in expectations as the Boston efforts.

#### Constraints upon the BRL Approach

Viewing BRL as a program, it is natural to ask whether BRL is restricted by an inadequate supply of suitable houses at feasible prices, by limited numbers of families willing and able to invest time and effort in the rehabilitation of their own houses under skilled guidance, or by civic red tape. In a way these are all constraints upon a very special process. If the market changed, influencing available houses, available jobs and available capital, the program in its present form would be jeopardized. But BRL is simply an approach assisting low income families to maximize their opportunities and to overcome the obstacles they face. It happens to be in its present form because it has found a target group within the low income population that it can effectively assist; given new opportunities and obstacles it would respond with a different form, forgetting homeownership and focussing instead perhaps on job training, for example.

Among the many opportunities utilized by BRL to help low income families are the FHA section 221(h) and 235(j) mortgage interest subsidies. The relatively inflexible criteria under which these programs are administered emerge as the most

immediate constraints upon BRL. These come under the headings of: program definition, turnover time, incentives, time horizons and the nature of the non-profit sponsor. We discuss each in turn.

### Program Definition

Under the 221 (h) program, assistance was limited to families under a defined income ceiling and required "substantial rehabilitation," defined as a certain percentage spent on labor and materials during upgrading to FHA specifications. This restricted BRL to a narrow range of low income families and deteriorated houses. Indirectly, but no less firmly, this also limits the approach to families willing to undertake a substantial amount of work. To broaden the appeal it is easy to conceive of a less demanding program wherein standard, hand-me-down housing is simply fixed up by low income families, to enable them to earn their closing costs under guidance -- but this would require broadening the subsidy. BRL deals with one and two family houses. Retaining dweller participation but with less work required, a variant of the approach might be suitable to three family structures, enabling the owner to rent out the other two units -- we have no way of knowing.

### Turnover Time

Under BRL the families take months of spare time to accomplish what professionals could do in weeks. Even though interim costs are borne by the family, FHA is impatient with the median fourteen month time lapse between commitment

and closing. Ironically, much of this period is consumed in title-search (individual inner-city properties frequently have tangled titles), FHA inspections and red tape. (See Figure VI.D.4.)

Figure VI.D.4. Operations and Events between FHA Reservation and Closing

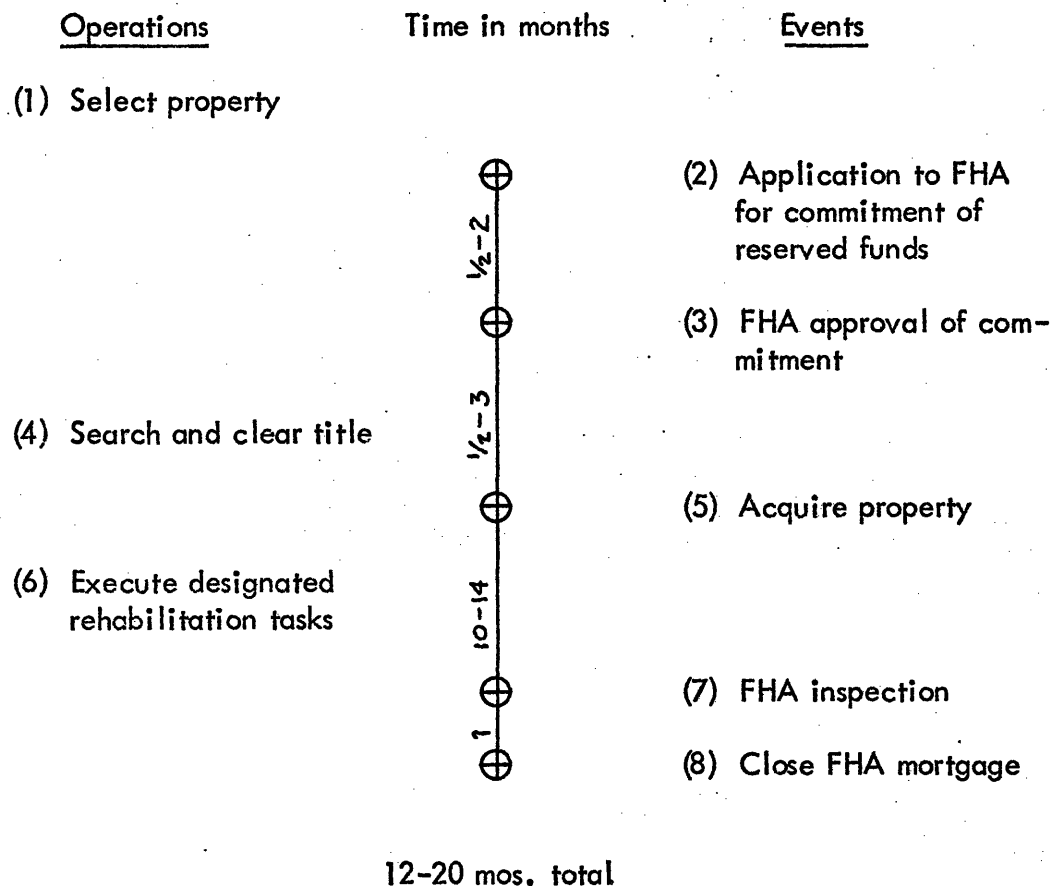


Fig. VI.D.4. reveals that three relatively simple operations must be closely coordinated with four FHA events -- through an office several hundred miles away. The FHA provides for grouping the individual units into packages of eight for processing under section 235(j). This introduces minor benefits and major drawbacks.

Commitment is obtained in the name of the sponsor, which enables acquisition before the families' credit profiles are actually in order, but all indicators suggest this point is only several months away. The rehab process can thereby begin that much sooner. On the other hand, acquisition and rehab of existing properties is not devoid of uncertainties. When these delay progress on one of the units, the entire package is held back.<sup>(18)</sup> Making changes in the "contents" of the package is bureaucratically very difficult. Even though technically the completed units could be "spun-off" from the blanket commitment, BRL has encountered tremendous difficulty in doing so. Instead, the FHA has recently come to charge BRL with being too slow. Drawing the line at one year, the FHA regional administrator in Buffalo has recently determined not to make any more reservations for BRL until it can demonstrate a more rapid rate of production. In his view, FHA "is not supposed to be a social action program."<sup>(19)</sup> Such decisions could be made better on-the-spot, by market forces through assessment of costs incurred by the delay, than by remote time-consuming conferences and executive decrees.

#### Incentives under FHA Programs

The BRL case description stressed that homeownership was the guiding incentive. The approach simply harnesses it to educate dwellers and upgrade houses. Under the 1968 Housing Act these incentives are considerably diluted. The family's payments are fixed at 20% of their adjusted monthly income, independent of mortgage amount. A family in the middle of the eligibility range has VID-1

no immediate incentive to minimize housing outlays on its behalf. The benefits of "sweat equity" seem to reduce only the share borne by the government through subsidy. There are, however, two less apparent benefits. If the family is near the lower margin of eligibility, "sweat equity" may determine whether it can obtain a house or not. And if the family ever sells the house, it regains larger equity when the outstanding mortgage is lower. The section 235 subsidy removes the incentive for the family to participate in the process, again rendering it less likely to understand and experience the forces "disciplining" early maintenance.

To illustrate this important point, we return to the comparison between BRL and RHA, between private and public sponsorship, Figure VI.D.5. We recall that BRL produced an \$11,400 house, priced within the market, and that RHA produced a \$15,400 house, priced in excess of the market. (20)

Examining the cost figures closely reveals some interesting effects of the section 235 provisions.

1) The taxpayer's burden with the RHA dwelling is roughly twice as large as that with BRL. Any and all appropriations would result in only half as many accommodations.

2) The family with the RHA dwelling is right at the lower margin of eligibility on three counts: a) the housing cost is only within the recently increased

Fig. VI.D.5. Comparative Monthly Payments under Sec. 235

	<u>BRL (private)</u>	<u>RIA (public)</u>
Resultant	\$11,400 house priced within market	\$15,400 house priced in excess of market, preventing owner from selling or moving
Mortgages	235-j with assistance payments to pay off \$11,400 sales price over 35 years	235-j with assistance payments to pay off \$15,400 sales price over 35 years
For a \$4800/yr family of three:		
• Total monthly mortgage payment	\$100.64	\$127.18
• 20% of mortgagor's monthly income	71.00	71.00
• Monthly federal assistance payment	29.64	56.18
• Effective interest rate on mortgage	3%	1%



limits, b) the family is receiving the maximum interest subsidy presently available, and c) the house price to income ratio is high by FHA rule of thumb criteria, easily knocking them from the program for another with more income. This amounts to saying that if the family's income had been only a bit lower, or rehab costs slightly higher, the housing would still have been out of reach for this family. In spite of the massive subsidy -- it is almost ineligible! (At 8% interest rate, it is ineligible.)

3) From an incentive point of view, the impact of section 235 is even more fascinating. The builder, is somewhat freed from the market forces restraining his costs. Experience suggests that builders will generally build close to the FHA limit, which allows overexpenditure to arise in the first place. As long as subsidies go to sponsor-builders, they will continue to be more adept at arguing for additional subsidies, than devising less costly alternatives. <sup>(2)</sup> The family similarly has no immediately apparent incentive to minimize rehab costs or to put in "sweat equity" when its share is pegged only to its income. It will easily assume that RHA's dwelling is better, because more was spent on it.

If the products are really identical, the BRL house is incomparably better for any owner, simply because it is still priced within the market. To see this, imagine an increase in income to a BRL owner (or simply the effects of inflation after five years). His subsidy would decrease, but if he wishes, he can sell his \$11,400 dwelling at a price that covers his equity and probably housing inflation as well, and simply move. The RHA dweller is not so well off. His subsidy would also decrease, but he is saddled with the red tape of trying to extricate his equity, while the Housing Authority looks for another would-be owner, He finds himself constrained by the overinvestment in rehab.

But the owner is only one of many actors in the process. (The taxpayer on the other side of Congress, is too remote to argue for BRL even though his burden is thereby halved.) Most of the other actors are facilitating beneficiaries. They are inclined to prefer the RHA approach, because they see more in it for them. Architects, lawyers, planners, unionized tradesmen and contractors -- to each alike the higher earnings are immediate, and the higher costs borne by the taxpayer seem remote.

Here again narrow subsidies directed to a public housing supplier seem to be not in the public interest. It should be possible to combine private incentives paying prevailing wages with independent public regulation to rehabilitate the illustrative houses for less than \$15,400.<sup>(22)</sup> This need not even require resident ownership or "sweat equity" on their part.

#### Time Horizon

FHA tends to compare alternative programs on the basis of initial costs. Under turnover time, FHA's steep trade-off between time and initial cost was noted. It appears willing to pay more to get housing units sooner. This fails to consider that higher maintenance and operating costs may result after completion.

In evaluating housing alternatives from a 20-year point of view, on-going maintenance considerations far outweigh initial cost considerations.<sup>(23)</sup> Any system that potentially reduces maintenance, or engages the dweller in sharing it, is enhanced by the long range view. The net evaluation of CPT and RHA is thereby rendered more negative, and BRL's enhanced. BRL simply offers some

relevant ideas in how to begin. It suggests that, for its particular low income clients, education and incentives for maintenance can be provided, even within the more stringent initial cost criteria. The case suggests that the understanding arises in some way from participation in the rehab process,<sup>(24)</sup> and ownership furnishes the incentive.

The fact that BRL was able to furnish dweller education without apparent additional cost is misleading. As yet, rehabilitation is without adequate cost yardsticks. Due to inexperience and legitimate pay-offs to facilitating beneficiaries the other cases examined above may all have been inflationary. Within BRL, more time and effort are consumed counselling and guiding the families less able to live within their means, and less time with those more able -- but this is independent of income. The easy families subsidized the more difficult ones, within the \$700 overhead. Even if it increased rehabilitation costs, dweller education and choice appear a good investment.<sup>(25)</sup> The case merely suggests that the key lies in providing the dweller a substantive role in the decisions affecting him.

FHA programs, subsidizing particular rehabilitation models and attempting to guide selection in specific areas, while concentrating on rapid production to an initial standard, severely hamper efforts like BRL's that attempt to pursue a broader aim couched within a longer time horizon.

#### The Nature of the Non-profit Sponsor

The principal enigma of the case is the motivation of the sponsor. What incentives prompt such a capable performance? Welton Myers approaches the task VID-19

with missionary zeal. Independent of his many talents and business acumen, he is dedicated to making converts. He is rare. (26)

How could such approaches be induced elsewhere, in each and every suitable community? They must be non-profit under present legislation because rhetoric about the urban crisis has led the prospective dweller to mistrust profit-oriented housers. In the mid-sixties, belief in rapacious slumlords gave rise to the concept of non-profit housing sponsors. Church groups were courted by local renewal agencies. Short on expertise and resources, long on concern or altruism, these sponsors attempted to act without the profit motive to guide them. Many of the resulting actions were naive, and concluded in a tremendous amount of disillusionment. The emerging fact that inadequate resources lay at the root of neighborhood decline was thereby masked.

Normally, altruism and the economic balance sheet contradict each other: what one permits the other forbids. In BRL, they have been brought into a kind of balance. It clearly operates with a Robin Hood double standard: on the one hand it offers generous, unstinting support to its clients "beyond the call of duty"; but on the other it can really bargain forcefully with the relevant authorities, like any skilled politician or businessman. The efficacy of the BRL approach lies in its selective sensitivity. How can one enlist the required talents into such a Robin Hood-type program? Either ability, separately, is in ample demand elsewhere, yet to be effective they must be exercised jointly. This may severely limit the possibilities of establishing the BRL approach elsewhere.

## SUMMARY EVALUATION OF BETTER ROCHESTER LIVING, INC.

### BRL Approach Potential

BRL has been competing with other low income housing efforts on the basis of short range FHA criteria, viz. suitable houses, reputable contractor, low initial costs, rehab to FHA standards etc. <sup>in 20 years</sup> On a 20-year basis, it would rank head and shoulders above many of the alternative rehab patterns, to which it is presently judged equivalent. If such longer range criteria could be made more explicit, BRL would certainly be ranked as one of the most promising low income housing rehab strategies available at present. In fact, this says little, because there are so few other promising models. <sup>(27)</sup> Low income home ownership and dweller enterprise in housing are virtually terra incognita. From a close analysis of FHA incentives and constraints, it appears that these forms are systemically discouraged and their evolution made unlikely. This is fully as plausible as the belief that the poor are incapable of ownership and enterprise as present incidence of low income home ownership suggests. It just seems more reasonable to explain BRL's uniqueness as a function of FHA policies than as evidence of insufficient low income demand and abilities for carrying such a program. The rarity of BRL renders it more interesting for study, but also more difficult for generalizing. Conclusions drawn must therefore <sup>be</sup> be much more tentative than they would be if we had a broad range of low income home ownership rehab cases from which to draw inferences.

Two sets of inferences emerge from the analysis of BRL, which must be differentiated: 1) those about actions made possible by complementing dweller incentives and manipulating constraints, and 2) those about the suitability and availability of non-profit housing sponsors in developing such approaches.

The potential housing contributions from providing incentives and a decision-making role to dwellers in the delivery of their housing services, are an untapped reservoir, whose extent is unknown and masked by FHA practices. Low income entrepreneurial ability may be much more widespread than is assumed under current housing policy. At present it is impossible to tell. Projects probing its extent might reveal some substantial alternatives to simply more SECD's, BURP's, CPT's and frustrations.

To assess this entrepreneurial potential, such alternatives must be devised as options, otherwise the conventional criteria of vacancy rates, number of applicants, etc. will be as meaningless as they are at present for low income housing in a "no alternative" context.

The suitability of non-profit sponsors in developing home ownership approaches is much more dubious. Non-profits were spawned by the housing legislation of the '60's. But without incentives of profit and loss to guide them, too many have been unable to <sup>?</sup>separate out naive altruism, in developing their potential under the laws. BRL is based on shrewd expertise suitable for profit-oriented ventures, which has been put into non-profit guise to utilize state and federal advantages developed exclusively for non-profits. Arriving at non-profit status from a profit orientation, as BRL has done, is unusual; the majority are simply incorporated

philanthropic bodies, shaped by people with diffuse social concerns in response to the legislation (and fashion).

The ends which BRL presently pursues through the guise of being a non-profit contractor could be attained more directly through housing allowances (or interest subsidies) to these families, coupled with guidance to help them realize the opportunities and circumvent the obstacles facing them. To design such a system equitably for application on a broad scale requires consideration of each role so that the participation of each necessary actor is enlisted by "something in it for him." As we have suggested, the motivations of BRL are not universal enough among present housing sponsors to make non-profits the keystone in such a program. In the final chapter we offer some alternatives to overcome this handicap.

#### Comparison with the Boston Cases

Although BRL and the Boston cases are examples of rehabilitation, they differ critically in a number of dimensions which must be considered before drawing any conclusions. We deliberately do not present a scorecard here on the products, comparing individual dimensions directly, because we wish to stress the process whereby the product was arrived at. All the dimensions are interlinked and BRL should not be viewed as another potential program for a specific target population, house type, and neighborhood setting, to be contained by guidelines.

The following brief narrative summary on products is presented for those who nevertheless seek a comparative recall of the Boston cases. The incomes of the

families served by BRL (\$4000 - \$7000) are comparable to BURP, but higher than SECD; the families tend to be complete, having both mother and father plus young children. The products are single properties containing one or two dwellings, rather than groups of four-story row houses as in SECD, or 10 to 20 unit apartment buildings like BURP. The properties are clearly deteriorated due to deferred maintenance, but generally still inhabited prior to acquisition like BURP, rather than gutted shells in the heart of the blighted area like SECD. The state of the individual units and degree of transformation during rehab is roughly comparable to BURP, but the size of the dwellings is considerably larger -- typically, nine-room detached houses on tight lots, in place of BURP's six-room apartments. Although total costs and the fraction spent on rehab are comparable to BURP, the families obtain substantially more space and the quality of rehab is higher, <sup>(28)</sup> apparently because private initiative, pursuing its own ends is more efficient. Contractors, bidding for publicly supported jobs "make allowances" to cover regulation, uncertainties, and clearly take the source of funding into account.

Viewed in terms of process, several critical differences emerge. The BRL approach encounters less regulation, it utilizes principally one overall subsidy, and this subsidy complements the resources of the families.

The significantly lower amount of regulation has several aspects. Firstly, the level of upgrading is such that no structural changes nor changes in occupancy are encountered, similar to BURP. In addition, BRL's efforts appear to be viewed as benefits to the city of Rochester, leading authorities to do their part in helping bring it about. There is no evidence of special treatment for BRL, or jealousy on



the part of others not receiving special federal incentives. The City of Rochester appears to have a more realistic grasp of the extent to which regulation is sensible and does not attempt to go beyond it. Its regulations appear more reasonable and equitable, but the city is significantly smaller than Boston.

Turning to FHA constraints, BRL was not forced to change room layouts. Even though BRL and SECD were meeting the same standards, these were only constraints upon SECD because it was converting existing housing into minimum apartments. South End row houses in Boston frequently have alcoves that are technically too small for bedrooms. If the sponsor nevertheless intends to include them in his bedroom count to obtain higher rents and leased housing subsidies, he must shift the partition. BRL leaves such odd spaces for a child's crib or play area. Had BRL tried to maximize its bedroom count, it too might have moved partitions to meet FHA minimum standards. There do not seem to be significant differences between SECD and BRL in the manner in which FHA plays its regulatory role.

The BRL approach is based on attaining one final mortgage subsidy under section 221(h). Low interest loans for interim financing and voluntary assistance are obtained when they do not impair BRL's ability to help families. Urban renewal units under write-down and planning assistance are viewed sceptically when they impair or distort the decisions made by the family. Compound subsidies with facilitating beneficiaries are avoided.

Under BRL the goal of upgrading housing is secondary to assisting lower income families. The subsidies are carefully utilized only to complement the resources of VIE-5

the dwellers. The families, rather than the FHA or renewal agencies, make the choice of the area into which they move. Marginal areas adjoining scunder stock happen to be appropriate to their needs and means. Halting further deterioration of these neighborhoods is a consequence rather than an initial concern. Areas from which the families come, as well as areas not selected by them, are left to further decline by the BRL approach, suggesting that the constraints upon their upgrading are probably more serious. To planners and policy-makers this constitutes vital market information, identifying potentially obsolete housing and neighborhoods.

There is no illusion that the present BRL model deals with gutted shells, ghetto areas, female-headed households, welfare cases, and <sup>very</sup> ~~really~~ low-income or unstable families. But it does deal with a low income population <sup>comparable</sup> parallel to BURP, and properties that need substantial rehabilitation to halt their acceleration towards dilapidation. Comparable stable blue collar families exist in abundance in all cities, and are presently not offered such an alternative; physically suitable houses exist in large numbers in a broad ring around the inner city, lying in the transition zone between the deteriorated and the solid lower class. For example, it is likely that in and around Boston, areas including Mattapan, Allston-Brighton, and Somerville have many suitable properties.

The interesting aspects of the BRL model to us lie in the approach used to upgrade housing, which represents an adaptation of the general housing system to situations of lower class resource poverty, rather than a variant of the special approaches devised over recent decades for the poor. BRL illustrates a general approach that could be extended in many ways to cover ghetto areas, welfare families, renters and the like. (29)

Judging by dweller responses and emulation of aspects of BRL in Rochester, the BRL process is viewed with far greater enthusiasm than any of the Boston rehab strategies, and clearly should be available as an option. Yet even in its Rochester setting, FHA reluctance to accept the program because of its mismatch with its own sights (inability of the sponsor to move fast enough, slowness of rehabilitation by families, reluctance to spin off completed units) renders its existence precarious.

## FOOTNOTES - CHAPTER VI

1. Recall the charges that BURP rehab prematurely ceased when dwellers moved in, section IV F. Incentive to carry out the rehabilitation must be maintained until the task is completed.

2. It is likely that the Hawthorne effect -- attention per se producing better performance -- is a significant factor in producing this remarkable change.

3. Other criteria, like appearance of previous quarters or previous employment history are considered spurious by BRL. As a staff member puts it, "A tenant who fixes up his apartment in the slums, like as not, finds himself asked to pay higher rent, or evicted to make way for another who will. They learn not to improve their houses." Similarly, employment history is considered equally likely to reflect the constraints these families are up against.

4. As we shall see below, other sponsors pay substantially more for comparable dwellings -- due to slowness in making payment, publicity, etc.

5. Ease of this operation is contrasted with Boston in section VI E.

6. I interviewed one owner who was just receiving his final BRL inspection. He was describing his acrophobia in repointing his chimney, when he suddenly saw something was amiss amongst his shrubs. It turned out that someone (kids, dogs?) had shifted the stones he was using to define the border of his new lawn. He was agitated and furious, while he restored the stones to order under his shrubs.

Another, using his BRL acquired skill, was insulating and panelling his attic to convert it into usable space. The manner in which he told how he would deal with the tax assessor if he came to give him any trouble, revealed that he had learned more than just to handle a staple gun; he had acquired a self-assurance that is invaluable in dealing with authorities.

7. Springfield-Micah, in Massachusetts, has a very similar homeownership operation. Here the families have organized their own tool-lending cooperative. Joining it costs little, but thereby one gains access to the tools commonly used on home paint-up fix-up, as well as the advice of others with similar problems.

8. Consider Installing or Puttying and Painting Storm Windows. The necessary operations are quite simple for the resident dweller who understands them and cost less if he carries them out.

9. Repair and Clean Stained Glass Window at stair landing, or Clean and Refinish Carved Oak Mantle.

10. CPT is arrived at simply by taking the initials backwards.
11. The introductory remarks are included because their tone conveys as much as the statistics. Although CPT completed two more packages to which it was already committed, it did not become a self-sustaining operation.
12. Personal interview at Rochester Housing Authority, May 12, 1969.
13. There have been instances of BRL and RHA seeking the same house. Take an extreme case: after BRL's bid was accepted, the RHA offered \$3000 more, not knowing it was sold. BRL pays cash on the spot, whereas RHA takes months to follow through, somewhat offsetting the disparity. RHA is simply not as attuned to the market and the quick cash needs of sellers.
14. It is likely that awareness of this built-in bias and the absence of a suitable alternative prevents many activist administrators from enforcing codes.
15. Costs in this example are realistic, but only illustrative. The example is elaborated further below, in terms of incentives to the family. See footnote 20.
16. See section IV C., "Problems of Maintenance and Management."
17. Bridgman, who has now left Rochester to direct a community action program in Lowell, Massachusetts, questions the wisdom of renting rehabbed houses to low income families altogether. He feels the houses are delicate and often the families do not understand them adequately. (Telephone interview, September 22, 1969). This is clearly true when the family is simply moved in, without the incentives or understanding of maintenance.
18. Since the described process is serial, a delay in any one of the operations results in a delay of (Step 8) FHA Closing. When eight dwellings are packaged into a group, a delay in any one of these operations on any one building holds up the entire package. Given the nature of tenure in the existing stock and the nature of the rehab process, such a delay becomes statistically quite possible, even where the overall process is logical and the likelihood of delay in any given operation extremely small.
19. The decision on what time trade-offs to allow BRL, since it confers social action benefits, has passed up within the HUD hierarchy to Secretary Finger's desk (one of Romney's right hand men).
20. Calculations are based on the HUD 235(j) Handbook, Nov. 1968, FHA 4400.9, pp. 21-26.

For a \$4800/yr. family of three, we find adjusted annual income = \$4,260.00  
 1/12 of 20% of annual income = 71.00

For the BRL house: \$11,400, 6 3/4%, 35 year mortgage

Total monthly payment on mortgage:	\$100.64
(Principal and interest are	70.91
+ mortgage insurance premiums	4.73
	<u>75.64</u>
+ taxes and insurance estimated	25.00
	<u>100.64</u> )
- 20% of mortgagor's monthly income	<u>- 71.00</u>
Leaves monthly federal assis. paym't (effectively the family holds a 3% mortgage)	29.64

For the RHA house: \$15,400, 6 3/4%, 35 year mortgage

Total monthly payment on mortgage:	\$127.18
(Principal and interest are	95.79
+ mortgage insurance premiums	6.39
	<u>102.18</u>
+ taxes and insurance estimated	25.00
	<u>127.18</u> )
- 20% of mortgagor's monthly income	<u>- 71.00</u>
Monthly federal assistance payment (effectively the family holds a 1% mortgage)	56.18

The complexity of the calculation, like everything touched by the FHA is unbelievable! Try and figure the impact of a \$400 rise in RHA's costs. A new set of criteria govern!

21. As we shall see in the next section, there is no rational force that encourages BRL as contractor to continue doing what it is doing; only its Robin Hood motivation keeps it going.

22. Present subsidies apparently do not encourage evolution of such alternatives for comparison. The concluding chapter outlines a potential incentive system to accomplish this.

23. The fraction of annual expenses devoted to debt service wanes from close to one-half in the first year to insignificance once the initial costs have

been amortized. Even during the amortization period the share wanes, due to inflation, and rising maintenance and operating expenditures.

24. The conviction of BRL staff members, probed in interview, is that having the family present in a decision-making role and observing the rehab process on its own dwelling contributes to developing this understanding. While they need not "drive all the nails," substantive involvement and tangible accomplishment are essential ingredients in transforming families with problems.

25. The families choosing the BRL program are clearly affected by the process, rendering them more capable citizens in dealing with middle class institutions. Also, Sternlieb's findings in Newark corroborate that resident owners would be the strongest defense possible against blight. It is critical that the dwellers be allowed to choose, and are not "pushed" to select in particular neighborhoods.

26. Springfield-Micah, in Massachusetts, has evolved a program similar to BRL's, but somewhat smaller and more recent. Paul Sears, its director, knows Welton Myers, and has analogous character traits. This shows that similar programs can be launched elsewhere.

27. St. Louis' Bi-Centennial Improvement Corp. and Springfield, Massachusetts' Micah, are two that have manifested similar promise. Significantly they stand out in studies of low income homeownership -- Jo Anne Newman, "Homeownership for Low Income People," 1968 MCP Thesis, MIT -- as well as in studies of self-help or sweat equity strategies for low-income housing: Richard Margolis, "Self-Help Housing in Urban Areas," Rural Housing Alliance, Washington, D.C., January 1968.

28. FHA/Buffalo's inspecting architect has stated that the quality of BRL's finished products is higher than any other rehabs in his area, particularly the contractor executed 221(h) projects. To get this statement from him in writing would be difficult, however.

29. For example, in Boston, Housing Innovations (HI) tried vainly to develop resident ownership of triple-deckers on a significant scale in Roxbury during 1967-69. The fault lay not with their concept, but in their inability to piece together the requisite subsidies under the present system. HI enabled low income resident ownership of a few triple-deckers by presenting signed leasing agreements with the BHA to the FHA to obtain mortgage insurance. With FHA insurance, in turn, they approached local banks for financing. See footnote 19 in Chapter IV.

## PART FOUR - SUMMARY

### CHAPTER VII - CONCLUSIONS AND POLICY RECOMMENDATIONS

This concluding chapter has three parts. The first repeats the issues posed at the outset and briefly summarizes the evidence relating to them. The second part evaluates some potential policy changes in the application of subsidies in light of evidence from the cases. The third and final part offers some illustrative policy recommendations.

#### CONCLUSIONS OF THE IMPACT OF THE PRESENT SUBSIDY SYSTEM

This section serves to recapitulate the evidence relating to the three sets of issues raised at the outset of this study. These issues are stated and then the evidence is briefly summarized for each set in turn.

- I. Are these subsidies efficient in producing more standard housing? Are they producing more housing per dollar than conceivable alternatives?
- II. How do the subsidies interact with the forces that governed the delivery of housing in their absence? Do the subsidies complement pre-existing incentives or reduce pre-existing constraints to stimulate an increased flow of housing services?
- III. Subsidies generally are used to distort market operations towards desired ends. Do these subsidies have drawbacks that have been overlooked, and if so, how might they be overcome?



There was too little evidence to judge the efficiency of subsidies at the conclusion of the Boston cases, in Chapter V. The case of CPT Housing Corporation in Rochester, in which substantially higher costs were required to produce rehabilitation comparable to BRL's, is the firmest evidence encountered in the cases that present subsidies are not efficient in producing more standard housing. Here compound subsidies served to support or "bail-out" a venture that was clearly a failure in market terms. The implications are serious because CPT followed the same set of procedures that present FHA guidelines encourage non-profit sponsors in Boston and elsewhere to follow. These procedures involve drawings, competitive bids and professionals that are generally dispensed with in conventional upgrading. Significantly, the BURP effort avoided these complex procedures, suggesting that they are inappropriate to certain forms of rehabilitation and may be unnecessarily called for by civic and FHA regulations, raising constraints and thereby costs.

In the case of the Rochester Housing Authority additional costs were seen to arise from encouraging quasi-public producers to act in public interest instead of private action in self-interest. The entrepreneurial role was constrained throughout the process by the public interests of the producer. Acquisition costs were influenced by impact on tax values; rehab costs were increased by adherence to prevailing wage standards and practices in new construction; and holding costs were raised by the inability to allow occupancy of substandard units before completion.

Evidence supports the conclusion that quasi-public and non-profit entities are inefficient sponsors for low income rehabilitation. Their interests are ill-defined and they lack the profit-motivated drive to be efficient in production. Present federal assistance and guidelines do little to help improve their efficiency because 1) they legitimize adherence to potentially obsolete codes, practices and values; 2) they introduce additional regulation and limelight; 3) they discourage the evolution of alternatives for comparison, and 4) they encourage petty rivalry and grantsmanship in sponsors due to insufficient appropriations. Information sharing and efficiency are clearly not promoted by the present narrow and specific forms of assistance.

The interaction of the federal subsidies with pre-existing incentives and constraints governing normal delivery of housing services was given more detailed examination in Chapter V. All the cases except for BRL emphasized producing standard units over their subsequent maintenance. The BURP case in particular demonstrated the overall disincentives to others, resulting from granting special concessions and waiver of normal constraints to a select few to facilitate rapid production. The special intervention adversely affected the already existing web of constraints and insufficient incentives governing the delivery of housing services in the existing stock. Lack of complementarity or integration with these forces results in a continued and increasing need for further intervention and subsidies to cover rising operating costs. Special assistance tends to require more special assistance. This is already becoming manifest in SECD, BURP, and the units under leased housing in Rochester.

These drawbacks or shortcomings were traced to the specific form of the present subsidies. They derive from viewing housing as a standard product rather than a continuing process in which the dweller inadvertently plays a critical role. Dweller behavior is a major determinant of maintenance costs. Feedback to him on his own adverse behavior is important to minimize resulting costs. Rental tenure -- presently encouraged by policy -- only weakly disciplines dweller behavior because it prevents the tenant from identifying with his surroundings and seeing consequences as resulting from his actions. Leased housing and mortgage subsidy payments which fix the dweller's housing costs to his income level further restrict disciplining feedback.

The limited incentives presently offered to suppliers are coupled with vitiating constraints in all except the BURP and BRL cases, and in these only the sophistication of those directing the efforts seems to prevent the same from happening. In one way or another present housing policy tends to distort and prevent the entrepreneurial role from finding the least cost way to improved low income housing services.

The next section evaluates how present inefficiencies, adverse interactions and drawbacks resulting from the application of present subsidies within the general housing system might be overcome.

## CONCLUSIONS ON THE ROLE OF PUBLIC POLICY

There is a general consensus that many American families are either receiving inadequate housing services, or are forced to spend an undue proportion of their income to obtain them. The role of public policy is to improve this situation. This study has focussed on subsidies as incentives, recognizing that these are interlinked with constraints like codes, zoning, and discriminatory practices, as well as other forms of incentives like tax relief or waiver of regulations. These were beyond the scope of the study.

The public policy conclusions relating to subsidies fall under six headings. Each will be discussed in turn, drawing together the supporting evidence from the cases.

1. Private allocation should be maximized for efficiency
2. There should be housing subsidies
3. Subsidies should be broad rather than narrow
4. Subsidies should go to demand side rather than supply side
5. There should be subsidies for homeownership
6. There should be dweller education for maintenance

As prelude to the discussion, recall the thermostat analogy to housing conservation developed in section II D, which stressed the importance of the entrepreneurial role. We stated there that someone must desire adequate heat in the dwelling, and assumed it to be the dweller. As heat is lost, he must

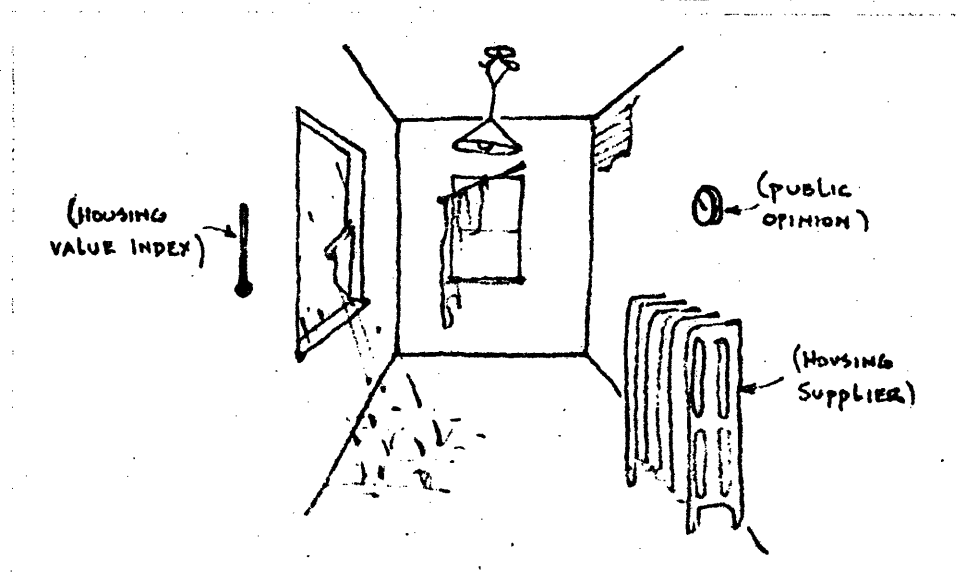
1) recognize the signs when more heat is called for, 2) be able to select the

most expedient ways of restoring the temperature to the previous level, and 3) arrange for heat to be supplied by the appropriate component. We reasoned that the desire to maintain an adequate flow of housing services was linked into an analogous system.

To continue the heating analogy, consider that the dwelling may be a run-down tenement room in which the thermostat is located above the radiator on an inside wall. As the room cools in cold weather, the thermostat calls for more heat from the radiator. Even if the windows are smashed or missing, the thermostat may be satisfied there is enough heat as long as the radiator continually steams and burbles away directly beneath it. A thermometer on the far side of the room would reveal the inefficiency of the operation as the heat escapes through the open windows.

The thermostat is close to the radiator, and confirms that heat is being supplied. As the room cools, the thermostat calls for more heat, even if the heat loss is out the window. Those drawing direct benefits from the boiler and heating plant cannot hear from the dweller who is receiving less heat than to be expected from the system. Noting the high heating costs, they propose larger, more efficient heating plants, while

Fig. VII.A.1. Heating Analogy for Housing Conservation



the dweller suffers and fails to get his window fixed. Since the thermostat is not next to the thermometer on the far side of the room, the futility of its call for heat is not apparent.

In the analogy, public opinion is close to the housing suppliers, and confirms that standard housing is being supplied. As the general stock decays, public opinion calls for better housing, even if the system is quite inefficient. Beneficiaries, tied into the present housing system at various points cannot hear from the dweller who is benefiting less than to be expected from the housing allocations. Aware of high housing costs, they propose more subsidies and study alternative ways of upgrading housing, while the dweller suffers and fails to get improved housing. Public opinion is out of touch with market value indicators, which register the discounted value of future rental return on the dwelling.<sup>(1)</sup> The feedback loop to deliver a more adequate flow of housing services is too long and imperfect.

The analogue caricatures the housing supply situation, to stress the need for an entrepreneur who can best determine how to maintain and conserve heat in the dwelling. Maintaining a flow of housing services requires immediate feedback from an on-the-spot decision maker. Systems with remote indicators, whether housing authorities, absentee landlords, or HUD program administrators, are simply too remote to play the entrepreneurial role. On-the-spot incentives and understanding are required either to fix the window or to recognize when to abandon the dwelling. BRL suggests that low income dwellers might be educated to play this role when furnished with incentives. How could the housing market system be modified to foster more widespread conservation of the marginal stock?

## 1. Private Allocation Should Be Maximized for Efficiency

The case evidence supports two conclusions: 1) that allocation of resources in self-interest is more efficient than their allocation on behalf of others; and 2) the entrepreneurial function of conserving suitable housing is best executed on-the-spot.

Judged from a self-interest standpoint, King-Bison's allocation of resources to facilitate low income housing was not very competent. Few others would have so quixotically attempted to turn obsolete stores into units, and to train the unskilled without subsidies. More experienced entrepreneurs would not begin to tangle with so many problems at once. The purpose of the case was to illustrate the gamut of constraints facing inexperienced upgraders of average competence whose actions in the past (we assume) largely conserved the existing stock. No doubt many of these continue their efforts, but less according "to the letter of the law."

SECD showed greater sophistication in playing the entrepreneurial role, but it was severely constrained by the public demonstration nature of the program. It seems likely that SECD could not cut corners that local contractors cut with impunity. The selection of the dwellings was dictated by the purposes of the demonstration, and the costs of their rehabilitation may well have been distorted by the limelight on the program. Private enterprise, acting in self-interest, judges the hardness of legitimate constraints, and uses influence in overcoming the less reasonable regulations. It finds the least cost route to the

goal of rehabbed houses more easily than an equivalent enterprise that is held accountable to the public.

BURP clearly produced better living conditions for some Roxbury residents, but UPA's conclusion "\$27 million buys a lot of paint,"<sup>(2)</sup> expresses the feeling that the allotment of \$12,000 per unit achieved less than should be expected from this amount of money. Acquisition costs are normally influenced by whether the bargainers are using their own money or the government's. BURP kept knowledge of government backing reasonably well-hidden, and the fact that each extra dollar spent on acquisition was cutting into their own profit margin probably controlled the normal inflationary impact of acquiring with government funds. The program's promise was to produce more standard housing. While it literally accomplished this, it rehabilitated relatively few vacant units, but largely selected occupied ones with less cost uncertainty. The entrepreneurial function was ably handled locally, but by redevelopers acting in their own self-interest. The selection of "creampuffs" instead of "dogs" can be interpreted as the winning out of the developer's self-interest over the public interest.

Even clearer support of the two conclusions is found in the comparative cases in Rochester. CPT, which ended with substantially higher rehab costs than BRL for comparable units and effort,<sup>(3)</sup> was guided by altruism on behalf of the poor, rather than self-interest. CPT followed standard practices of new construction -- bids, architects, legal papers, etc. -- rather than the procedures more common in upgrading -- selecting a contractor and bargaining with him, then trusting him.



The BRL costs reflect an unusual degree of sophistication and shrewdness in bargaining but it is likely that with guidance any average dweller acting in self-interest would have been able to rehab for considerably less than CPT.

The comparative analysis between rehabilitation sponsored by the Rochester Housing Authority and BRL, reveals a systematic discrepancy in costs resulting from public accountability and inadequate heed to the self-interests of the interdependent actors. In our illustration, the costs were at least one-third higher for RHA.

So far we have been considering private vs. public allocation (without subsidies). One of the commonly cited drawbacks to private allocation is the inability to achieve economies of scale. Scale is associated with the distinction between private and public. The private efforts are atomistic, whereas the public ventures are grouped into programs of multiple units. Economies of scale were perhaps anticipated in rehab in public program design, but even under BURP there were few in on-site rehabilitation. To attain economies of scale in rehabilitation requires a cluster of identical houses, available at the same time -- and rarely found.<sup>(4)</sup> Yet the grouping of units into packages has been part of the SECD, BURP, and BRL programs, serving bureaucratic expediency rather than reducing on-site reconstruction costs. In BRL's case, inability to spin-off completed units grouped into "packages" under FHA's 221 (h) program burdens the families that finish early with delays and higher costs.

To minimize rehabilitation costs appears to require pragmatic decisions. The flexibility of the small-scale private entrepreneur seems more suited to the

task than large scale government programs, but at present local entrepreneurs seem to lack the incentives to overcome inner-city constraints.

## 2. There Should Be Housing Subsidies

There seems to be surprising unanimity on this issue, but it is important to note two points at the outset; 1) that subsidies always seem an easy solution to complex problems, and 2) that subsidies come in many forms, with very different impact. The general agreement on the need for subsidies probably derives from the abstractness of the concept.

For upgraders and redevelopers of average competence in these inner-city areas, constraints exceed incentives. Where action occurs, it is subsidized in one way or another; if not from federal sources, then by inadequate return on the effort invested, discouraging repetition of the venture. King-Bison, with its spiralling costs, finally leased units to the Boston Housing Authority to obtain higher rents under subsidy. SECD and BURP would have never been attempted without federal subsidies. BRL, with its high competence and fewer local constraints, nevertheless found that the income level that could be served was inversely related to the subsidy.<sup>(5)</sup>

The drawbacks of subsidies are subtle. The need for subsidies arises from natural and man-made causes largely outside the discussion in this study. There are monopolistic effects induced by the location and durability of the existing stock; there is discrimination in access to housing and to the dwelling construction industry. These are compounded by archaic codes. Jointly, these result in

benefits to a relative few, and increased costs for many. A proper role of the government is to reduce deception, discrimination, and market imperfections. Subsidies do not get at the causes of the inflating housing costs and they may even mitigate the pressure for reform. In other words, they may simply be inflationary. But if we want to improve inner-city housing in the near future, some form of subsidy is the quickest way. How the subsidy is applied can make a considerable difference in this.

### 3. Subsidies Should Be Broad Rather Than Narrow

Narrow subsidies are connected specifically to particular programs; their application tends to be closely defined and carefully regulated. Most of the HUD subsidies for declining areas are in this category. (6)

"Back-door" subsidies like double-declining balance depreciation are somewhat broader in the type of housing they affect, but the incentive they offer is limited to investors in higher tax brackets.

Tax deductibility of mortgage interest, even though it only applies to homeowners, is broader yet in its effect on housing type. Widest would be housing allowances or income subsidies which are applicable to any type of housing, and would make universal code enforcement feasible. (7)

The supporting evidence from the cases is largely against narrow subsidies. Recall the list of subsidies with facilitating beneficiaries presented in connection with the case of SECD and other non-profit sponsors. We noted that these

subsidies 1) induce rivalry to obtain them, 2) displace consumer sovereignty, 3) each take considerable time and effort to obtain, and 4) are individually regulated. As incentives, the subsidies exert a strong shaping influence on the housing sponsor. As their attendant regulation comes to constrain the sponsor, he comes to believe the subsidies were inadequate.

Rivalry springs up when there is competition for a limited good. Many of the non-profit sponsors were led to exaggerate their potential, and to hide their difficulties. Instead of identifying their difficulties openly and working jointly towards their solution, they found it politic to maintain a good front. Like the Joseph Tuckerman Foundation, quite a few retreated gracefully after only one try.

The displacement of consumer sovereignty is ironic since the dweller still pays the lion's share of his housing costs. The individual incentives, like Leased Housing guarantees from the BHA, are in the position of facilitating or preventing the sponsor's endeavor by furnishing him the critical resources that make the difference between non-profit and loss. After he is committed to the endeavor, the sponsor discovers unanticipated constraints. He welcomes any assistance he can get at these critical points, but his entrepreneurial actions are often distorted thereby.

The incentives take time and effort to obtain because their suppliers have specific goals in mind, and wish to ensure that the subsidies work toward the desired ends. This accounts for the considerable regulation in their application. For example, the BRA offered SECD planning services and facilitated acquisitions

under "write-down," but in turn regulated the subsequent rents and occupancy of the property through the Disposition Agreement with the sponsor. SECD found itself constrained by unrealistic rent ceilings, which led them to seek help under Leased Housing.

The point here is simply that one subsidizing agent and one separate regulatory body would be more efficient than the present pattern. The BURP process partly accomplished this, with the result that the redevelopers found their incentives exceeded their constraints. From the housing production standpoint, BURP was relatively successful. One drawback was that adequate regulation was waived by the subsidizer's (FHA's) overriding interest in rapid production. Another criticism is that the program was inequitably offered to a select few -- others could not obtain the subsidy of streamlined processing and reduced constraints from City officials. Moreover, its goals of simply producing standard housing units were too narrow. The program was too specific to allow automatic consideration of relocation of the displaced, or incentives and education of the dwellers towards maintenance of the units after completion. This was because 1) the subsidy was too narrow and 2) because FHA's traditional role of regulator in the public interest was compromised by its own interest in production. Offer BURP's unconstrained City processing to upgraders in general and invest \$27 million directly to lower the interest on housing mortgages, and the housing production might well surpass BURP's.

FHA's section 235 and 236 programs are further steps in broadening assistance. The BRL case offered some insights into the potential impact of 235(j),

From BRL's standpoint one broad subsidy is more rational than many incremental ones. BRL would prefer 3% mortgages for low income families directly from local banks in place of the present red tape through BRL with FHA in Buffalo and GNMA in Washington. At present BRL is constrained by the "packaging" into groups, the red tape in "spinning-out" completed units from FHA's blanket commitment, and FHA's concern over BRL production time, which has no rational cost basis.

The narrow subsidies, by their multiplicity and inadequacy, make it difficult for entrepreneur, policy-maker and evaluator alike to obtain an overview of the housing market. When are units obsolete? What does it cost to rehabilitate a row house, a triple decker, or an apartment house? How should they be compared? Normally markets handle these functions, but here, in effect, the pattern of subsidies and their regulation succeeded in "jamming" market signals, confusing the unwary and demanding high levels of sophistication in order to succeed. A housing strategy that has no appeal for those with average competence loses out to the suburban housing production system, which rewards average competence nicely.

The fact that narrow subsidies "jam" market signals does not prove that broader subsidies are the solution, but it seems likely that under broader subsidies many of the special headaches encountered by non-profits would be mitigated. Approaches could be compared, progress could be judged, and obsolescence identified more clearly. (Or was there a Machiavellian purpose in preventing this when government resources to the task are so inadequate?)

#### 4. Subsidies Should Go to the Demand Side Rather Than Supply Side

The case evidence under this heading recalls the arguments under the first heading: allocation in self-interest is more efficient, and the entrepreneurial function is best executed on-the-spot. Essentially it is an argument for placing allocation decisions with the housing consumer rather than the housing supplier. When dwellers initiate the demand, entrepreneurs respond within the market constraints by delivering the housing services to meet that demand in ways that require least effort on their part. Independent market regulation is probably necessary to prevent exploitation of unsophisticated dwellers.

After the small-scale sponsored rehabilitation cases, the facilitating beneficiaries connected with various individual subsidies to the suppliers were discussed. Many actors acquired legitimate roles in regulating resources spent on behalf of the poor. Rutledge Waker, black director of Low-Cost Housing, Inc., caustically described the process: "For every \$10 put into the pipeline by the government, only \$1 of housing for the poor comes out. Those cats get the rest." While this probably exaggerates the case, countless civic officials, government officials, architects, planners, lawyers, and bankers have become tied in with the subsidies.

Under BURP this occurred to a much smaller extent, but the FHA and the redevelopers jointly were able to set goals for the project which consumers and local interests found hard to accept because the problem definition was too narrow. With economic power in the hands of the tenants, modification of BURP would not have been as difficult.

To classify BRL as a supply-subsidized or demand-subsidized approach is difficult. From FHA's point of view, BRL is a licensed contractor, supplying housing to low income families. The full benefits of the subsidy are passed on to the families, however, strengthening the dweller's entrepreneurial role. The dweller is educated by participating in decisions, weighing the trade-offs in choosing a particular house, and deciding what is to be done to it. The subsidies enable the families to enjoy increased choices and a sense of control that enables them to cope more responsibly with other problems confronting them as would normally be possible only under subsidies to the consumer. But BRL, the sponsor, manifests a rare lack of self-interest. One cannot identify "what's in it" for such a capable, sophisticated sponsor. To expect generally such altruism from housing suppliers is unrealistic. However, BRL does suggest that with guidance some low income families are able to allocate resources responsibly and resist exploitation. There seems more promise in direct consumer subsidies coupled with education, than in continued subsidies directed to suppliers.

There are drawbacks to demand subsidies which should be mentioned. If introduced suddenly, they may be inflationary, since the housing supply responds very slowly to changes in demand. However, the present supply-subsidies, with their emphasis on prevailing wages, adherence to local codes, and uncertainties have probably been as inflationary in less obvious ways. Demand subsidies would have to be gradually introduced, alongside rational market regulation and monitoring of fair hiring and open occupancy practices, which the government should be doing anyhow.



Another frequently mentioned drawback is fear that the dweller will be exploited if the government's \$10, mentioned by Waker, were placed directly in his hands. To what extent this would actually occur is uncertain. Curbing exploitation of the poor is a suitable government role that can be handled in many ways, including dweller education as well as regulating the "exploiters" -- the landlords, the housing suppliers, the bankers and realtors. Offsetting the resource poverty of the poor is also a suitable government role, that likewise can be handled in many ways to redistribute income and opportunities. But curbing exploiters and redistribution are best kept separate. When they are linked, interests come into conflict, and the multiple possibilities are reduced to a very few.

Broad demand subsidies are much less appropriate to attaining particular goals. Broad goals include assisting low income families, and facilitating homeownership. Particular goals include developing a certain new rehab technology, or upgrading a specific neighborhood. Particular goals may relate to the broader goals, but it should not be assumed, a priori, that a particular goal is the most efficient approach to the broader goal. In effect the Boston cases pursued the particular goal of upgrading specific neighborhoods. Linking separate goals like assisting low income families with upgrading specific neighborhoods, as SECD and BURP attempted, brings the risk of compromise strategies which subordinate the broader goal, or suit neither well. <sup>(8)</sup> BRL set out to assist low income families and found themselves helping families move to less blighted areas. A specific goal like upgrading a neighborhood could be approached in a variety of ways -- by a continuing

subsidy to the dwellers who remain there, by subsidizing suppliers to perform specific operations like rehabbing houses, or by clearing the area and building new. Under a clearly enunciated goal, alternate strategies can be evaluated by how well they support a broader goal like assisting low income families. Under blurred goals, comparative evaluations are difficult. This is why SECD, BURP and BRL, which all profess to assist similar income groups, are hard to compare. Under the multiple mini-goals of the narrow subsidies, comparison becomes almost impossible. If particular goals are sought, they should be pursued independently to prevent their displacing the broader goal.

So far our incentive and constraints analysis of the cases has led us to outline the type of subsidy that offers the most promise in assisting low income families obtain better housing services. The outline begins by recognizing that the low income sector has insufficient resources to provide incentives to any agent to produce adequate housing under the present constraints -- thus the need for a subsidy.

The subsidy should be as broad as possible to avoid the confusion generated by rivalry under a multiplicity of narrow programs, and to allow evolution of as many choices as possible. It should go to the demand side of the market to minimize the obliteration of market signals normally influencing allocation decisions by suppliers, and to make apparent where regulation, by separate agency, is required to alleviate market imperfections. Families may move but the strategies causing entrepreneurs to act through the market will conserve the

most suitable portions of the existing stock. Shunned and obsolete areas would thereby be identified for special consideration by policy makers. The autonomous upgrading which apparently worked well in the 1950's would thereby be supported; and the less efficient special interventions which threaten to discourage or displace autonomous upgrading would be stopped.

In summary, our analysis has led us to housing allowances, with the observation that they should be introduced gradually and paralleled by regulation to minimize their inflationary impact. Regulator and subsidizer should be separate but coordinated agencies. In section VII C, a possible housing allowance is illustrated.

#### 5. There Should Be Subsidies for Resident Ownership

Homeownership occupies a hallowed place in the American culture rendering it difficult to evaluate objectively. Our reasoning about the incentives and constraints upon housing conservation in the general housing system showed that under homeownership the incentives to maintain are more focussed. It also showed that the incentive required to produce maintenance on any dwelling increases with time, since deferred maintenance eventually leads to substantially higher constraints in restoring the dwelling to its previous condition. In all cases the available incentive is limited. These effects come together in the resident owner. He desires action most keenly, can supervise his tenants, and is in the best position to "patch the leak in the dike," before the higher constraints of deferred maintenance overwhelm his limited incentive. This is a classic feedback control

situation, wherein mounting costs of errors discipline the owner to act before he loses his control, and thereby his investment. In the absentee-owned rental situation the incentive to maintain is diffused, and the feedback call for remedy is hampered both by the dweller's limited understanding of the need for maintenance, and his more limited communication with the owner.

Fortunately there is sufficient slack in the normal housing system so that in various forms of tenure the incentives are adequate to overcome the constraints. In marginal areas, however, the process breaks down, and as our analysis leads us to expect, the rental situation is overwhelmed earlier. The tendency of resident owners to be more resilient in the face of constraining forces in declining areas, noted by Sternlieb and many others, suggests that policy to conserve marginal areas should give homeownership special consideration.

Supporting evidence is found in all the cases. In King-Bison the fire in the top floor of the end four-story row house damaged one room. We noted that \$800 at the right time would have saved the building. Lack of incentive or resources deferred this action and soon all the units in the building were lost from the stock. In this particular area, incentives may have been overconstrained initially, but the resources required to hold the building were minute compared to what was required to rehabilitate it later.

Under SECD and BURP we have circumstantial evidence on the drawbacks of rental under the BHA's leased housing program. Tenants under this program have their rent fixed purely as a function of income. They experience no disciplining feedback on the consequences of their actions and inactions. Even the

rent-collecting process, normally a time for tenant feedback, is complicated by the third actor, the BHA. This leaves the manager with limited understanding of where timely action is required, and the tenants with fewer controls on their behavior which can degenerate from neglect to abuse. Tenants in the general housing system are significant suppliers of their own housing services -- such as cleaning their own dwellings and reporting problems to the super. SECD and BURP experienced higher maintenance costs than anticipated. It seems reasonable that in part this can be attributed to the lack of incentives and responsiveness encouraging dwellers to play their part.

The BRL model is developed on the concept of homeownership as a stabilizing influence in marginal neighborhoods. The incentive of obtaining ownership induced families to undertake some of the rehabilitation. The quality of their work was acceptable to FHA standards, and their actions in self-interest were clearly a factor in the remarkably low rehab costs. They would not have worked as productively subcontracting on someone else's house.

It is too early to conclude definitively, but BRL homeowners moving into marginal areas appear to influence one another and their neighborhoods to arrest blight. Certainly they have been instrumental in creating neighborhood organizations. Significantly, the families interpret the BRL process as extending their opportunities, and in this spirit they appear able to accomplish more upgrading and conservation of existing housing than constraining codes. If they can sustain these efforts, then homeownership subsidies for such families are a good investment for society. The benefits to the family exceed the

motivating incentives. The family gains the equity resulting from its own efforts -- a form of forced savings. They acquire status.

HUD's section 235 program under which BRL presently operates, does not fully take the nature of incentives and constraints into consideration.

Section VII C outlines a form of resident ownership incentives that is consistent with our analytical approach.

6. There Should Be Dweller Education for Maintenance

The evidence under this heading is closely interlinked with the previous one. Sponsors in all four cases would vigorously agree with the need for dweller education.

King-Bison avoids difficulties by attempting to screen out problem families-- the standard solution of the private landlord. Even the tenants under Leased Housing agreements are initially accepted by King-Bison, and referred by them to the BRA. For King-Bison, this is an answer to the problem of families with negligent or abusive behavior, but it is not a general solution. Normally BHA assigns tenants.

The theory that rewards and punishments in early life shape lifelong behavior patterns seems reasonable, but it does not justify the belief that problem dwellers are purely the result of early influences. The consequences of a housing policy are necessarily limited, but they should not ignore their shaping impact on dweller's lives. We noted above, under VII.B .5, that SECD and BURP tenants, whose rent is a fixed percentage of income, and who are buffered in dealing with the management by the BHA, are relatively isolated from the positive and negative

consequences of their actions and inactions. Without these disciplining or shaping influences, their behavior lapses more easily into negligence. Abusive behavior may even be reinforced if it is the only means of obtaining attention. The SECD and BURP program designs are not equipped to deal with this. Having ignored the dweller in their conception, they have no incentive available to shape his behavior more positively.

The BRL model evolved around dweller incentives, and his "education" naturally followed. The BRL dweller initially has consequences and alternatives revealed to him by his guidance counsellor. Throughout the process from counselling to taking title, he is helped to learn from his mistakes. He learns to minimize maintenance costs, both through calling the repair man in time, and by avoiding him when he is unnecessary and doing it himself. He comes to deal with regulatory authorities without being intimidated. He acquires some marketable skills which few use directly, but which by transference sometimes improve his job situation. Above all, he acquires a knack for realistically appraising the circumstances confronting him, resulting in more reasoned action. As drawbacks, it should immediately be noted that the obstacles a low income family has to overcome in pursuit of its goal of homeownership are considerable, especially since only dwellings requiring substantial rehabilitation can be considered under present programs -- that too, is haltingly changing.

Dweller education, to be effective, must be coupled with sufficiently strong incentives. The discussion of the BRL case noted that the fixed 3% interest

mortgage under section 221(h) presented a strong incentive to minimize rehab costs. Under section 235(j), where payments are related to income, this incentive is largely lost, since higher rehab costs are shifted to the sliding subsidy alone. The subsidy reduction as income rises, further acts as disincentive, albeit a mild one, for the dweller to "improve." The stronger the perceived incentive seems to the dweller, the more likely it is that he will take counselling and guidance seriously. Thus a fixed interest home-ownership program is better able to carry dweller education along with it; and ownership, even on a sliding interest scale is a stronger incentive than rental programs can offer.

The purpose of dweller education is to increase understanding of the consequences of action and inaction. Rochester Neighbors, whose counselling program for tenants attempted to adapt BRL's approach, found it considerably more difficult to influence them. Doubtless this might be explained in other ways, but these tenants were also in housing leased to the Rochester Housing Authority, and had few incentives to put into practice whatever understanding they gained from their counsellors. It is probably not sufficient for the content of a counselling program to be attuned to relevant concerns of the dwellers. It is necessary to couple it with incentives meaningful to them so they are encouraged to put into practice and benefit from what they have learned.

To design tenant education is not easy, but the functioning of the general rental market yields some clues. It seems important for the dweller to allocate



his own housing resources as much as possible, so he comes to experience the cost consequences of his own behavior. This corroborates the selection of housing allowances under VII.B.4 above. All should be able to select housing in the general market system with guidance available to those who are being "screened out." Such guidance might be conducted in a manner analogous to the county agent in agriculture extension and coupled with referral assistance to landlords willing to participate. Pay for the agents would have to relate in some way to the number who remain placed successfully. Outlines for possible approaches would again be defined by the incentives and constraints faced by the interdependent actors.

This set of policy recommendations extends the general housing system and urges the abandonment of special strategies that inevitably separate and may attach stigma to certain housing types, areas, owners, dwellers and entrepreneurs. Special interests like facilitating beneficiaries are quick to take advantage and legitimize situations where non-comparability prevents detection. It is beyond proof, but it seems likely that placing more faith and complementary resources in the common dweller will result in better conservation of the existing housing stock and better regulation of the suppliers of housing services than increased controls over the application of subsidies. That is the lesson from the BURP case. The BURP model was modified in spite of the fact that direct subsidies to the redevelopers removed just the economic pressure tenants needed to modify the process.

Under the strategies outlined above the structures selected by King-Bison or SECD might not have been rehabilitated; those for whom BURP was intended might have moved to the suburbs. This in turn might have pointed up more clearly the blighting effect of bureaucracy in the Boston regulatory agencies and forced reform, instead of masking the need for it. Whatever their actual effects, these strategies would clarify and assist in reducing the complexity of the apparently intractable housing problems presently confronting planners and policy makers.

#### ILLUSTRATIVE POLICY RECOMMENDATIONS

This concluding section offers some policy recommendations to illustrate programs that would be consistent with the conclusions of the analysis. We can now outline performance specifications for subsidies that look relatively promising after this review of the cases. Doubtless political expediency would modify them prior to implementation, but they are presented here for debate. They illustrate 1) a possible housing allowance, 2) a way of adapting middle-income home-ownership incentives to lower income needs, and 3) an adaptation of the BRL counselling service to educate dwellers. They are specific illustrations. Once the approach is grasped, variants consistent with it can be developed.

##### 1. The Outlines of a Possible Housing Allowance

Section VII.B .3 concluded that a housing allowance should be paid to the dweller. It should be a function of his income. To avoid undue VIIC-1

inflation it must be gradually introduced. To avoid stigma to the dweller, it should be handled like social security payments. To prevent profiteering by owners of run-down property, it should be coupled with appropriate standards and market regulation.<sup>(9)</sup> Under this stipulation, it would provide a market incentive to owners to upgrade their property to attract the dwellers who now have more means.

A workable plan could be administered through the Internal Revenue Service, which already obtains income information from everyone. Each household head would receive monthly payments scaled to his income and number of dependents, if he obtained certification that his normal dwelling was up to the national standard, regardless of form of tenure. The household head would obtain such certification from a specially commissioned government housing inspector, possibly an FHA agent. The incentive to the dweller must be large enough to enable and motivate him 1) to live in some standard quarters, and 2) to get the inspector to certify that fact, otherwise nothing would happen. Present consideration of extra subsidies in high cost areas should be ignored so that location remains an unconstrained choice of the dweller. The housing allowance might even resemble a policy instrument by encouraging dwellers to move out of high cost areas. Assistance to unusually large or fatherless families should remain a separate issue, to be analyzed in terms of its own particular incentives and constraints.

## 2. Outlines of a Possible Resident Ownership Subsidy

The conclusions in VII.B revealed special aspects of resident ownership in relation to housing conservation. The process provides the owner with incentives and feedback to maintain the property. The case of BRL illustrated ways of stretching the general housing system to serve lower income groups, enabling the dwellers to overcome gaps in ability, resources, influence and understanding. The subsequent analysis stressed that it seemed unusual for a non-profit sponsor with relatively short range interest in serving the dweller to be able to provide such services. But BRL's existence provides a model for adaptation.

To augment the resources of low income dwellers, while adapting present middle income homeownership incentives, the provisions allowing deduction of interest payment from taxable income could be revised. At present the impact is a function of the marginal tax rate, i.e. a family in the 40% tax bracket has a much stronger incentive to tie up its money in a mortgage (since the government effectively pays 40% of its interest for it), than a family in a low tax bracket. To offset the present regressive impact of this incentive, a progressive schedule could replace the present straight deduction provision. Under this schedule, resident owners in lower tax brackets would consider progressively larger percentages of their mortgage interest payments for credit as payments in lieu of federal taxes. Such a system would be remarkably simple to administer, since it is entirely based on data presently submitted by each taxpayer to the Internal Revenue Service, and merely modifies the tax calculation.

As a possible illustration consider Figure VII.C.1, which displays the incentives for resident ownership as a function of income -- both under the existing and proposed systems. The illustration assumes that the predominant appeal would be for single family ownership, but that two and three family buildings would be covered if the owners had the means. (10)

Fig. VII C.1. Tax Incentives for Resident Ownership

A		\$50,000	\$30,000	\$20,000	\$10,000	\$6,000	\$4,000	\$3,000	
UPPER PRESENT LAWS	B	Effective subsidy rate (=tax bracket)	50%	40%	28%	19%	17%	15%	14%
	C	Subsidy value per \$1,000 of interest paid	\$500	\$400	\$280	\$190	\$170	\$150	\$140
	D	For outstanding mortgage balance of:	\$80,000	\$50,000	\$40,000	\$20,000	\$12,000	\$8,000	\$6,000
	E	Annual 8% interest is:	6,400	4,000	3,200	1,600	960	640	480
	F	+ the subsidy amounts to:	3,200	1,600	900	300	160	100	67
	PROPOSED MODIFICATIONS	G	Percent of mortgage interest credited against taxes	none	none	none	25%	50%	75%
H		Subsidy value per \$1,000 of interest paid:	\$0	\$0	\$0	\$250	\$500	\$750	\$1,000
I		On item F, this subsidy amounts to:	\$0	\$0	\$0	\$100	\$480	\$480	\$480
J	Total effective subsidy (F + I)	3,200	1,600	900	700	640	580	547	

Rows A - F are incentives under present laws, and G - J below the double line reflect the proposed modifications. All figures are approximate but plausible for a family of four with average deductions.

Row B shows the marginal tax rate for the income classification in row A.

Row C reveals the tax the dweller would have had to pay, had he spent \$1000 of his income on taxable goods rather than interest. In effect, the government pays this share of each \$1000 he allocates to interest payments.

Row D states outstanding mortgage balance at the commencement of ownership, when these incentives are most pronounced. The amounts are approximately twice annual income, but taper in the higher income brackets to reflect the actual situation. As the mortgage is amortized, outstanding balance, of course, decreases.

Row E states annual 8% interest payments on the balance in row D.

Row F reflects the impact of the marginal tax rate, B, upon annual interest, E.

Row G proposes a schedule of tax credits, graduated by income, to offset these effects which principally benefit those with incomes over \$10,000. Portions of the money spent on interest in resident ownership are to be considered as payments in lieu of taxes.

Row H again reflects the share paid by the government of each \$1000 allocated by the dweller to mortgage interest payments. These are akin to mortgage interest assistance payments under section 235, sharing and finally underwriting the entire interest as dweller income drops. The critical difference is that they are offered to the dweller, not paid to the lender/supplier on his behalf.

Row I applies the tax credit incentives of Row G to the mortgage balances under row D. The attempt was to keep them roughly the same, but schedule G is continuously variable if alternative distributions are sought.

Row J, finally, presents the total effective subsidy under the complementary plans. At some point where income falls below \$5000, certain families would begin receiving tax refunds, which is not inappropriate. For perspective, consider that the present interest write-down from 7% to 1% under section 235 on a \$15,000 mortgage has a direct cost of \$900 in actual mortgage assistance payments, plus indirect costs of FHA and FNMA administration, annual income recertification and other red tape.

The graph, Figure VII.C.2, displays the general impact of the existing and proposed system graphically.

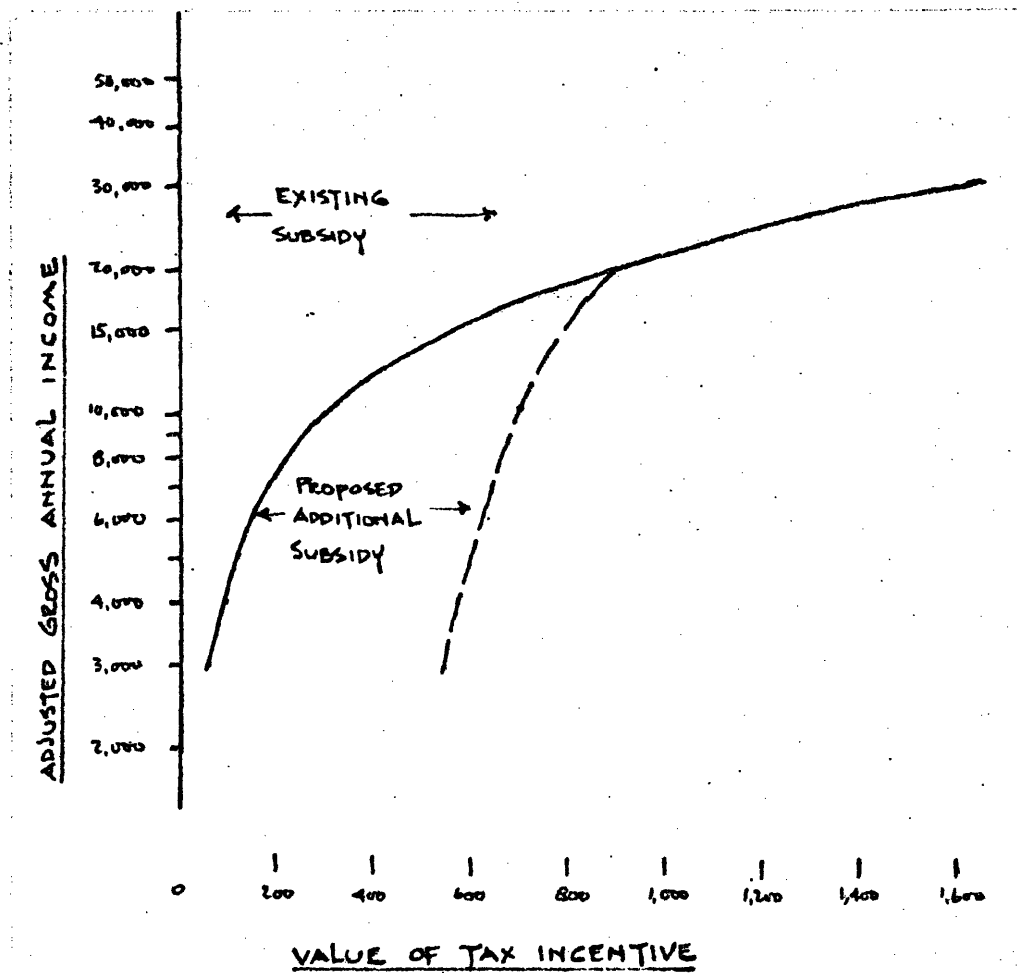


Fig. VII.C.2. Value of Tax Incentive by Income.

Until one views the incentives graphically, it is not apparent how strong homeownership incentives are for middle and upper income groups, and how dilute in impact they are for lower income segments of the population. This proposed subsidy should be seen as extending a generally available subsidy to lower income groups, to whom it presently is no incentive because they are in too low a tax bracket. Like the middle income housing system, banks would investigate the properties before committing mortgage funds, but the cumbersome FHA duplication of regulatory and income monitoring functions presently connected with interest subsidies would be dropped. (FHA mortgage insurance would remain, however.)



A major advantage of this strategy is that it can modify the impact of interest rates upon resident-owned housing mortgages without having to loosen credit throughout the entire economy.

### 3. Outlines of a Possible Dweller Counselling Service

In designing services to educate dwellers and enable them to obtain better housing, assume that housing allowances, as developed under VII.C.1, are generally available. Some families, "problem families" even with sufficient resources, might be screened out by landlords in the general housing market. Perhaps others would not avail themselves of opportunities open to them. These would need some form of guiding and counselling from agents in a broker role. Such agents would need to have a broad understanding of the various housing opportunities available. They would point these out to the families and counsel them in what they would need to do to realize their opportunities. This broker role would resemble the guiding and counselling role played by BRL, but the agent would not offer accommodation or rehabilitation services. His principal role is enabling choice, and he must have no interests in a particular selection.

If it really helped them find better housing, dwellers would willingly utilize the service. But how would families of limited means pay for such a service, or if it were subsidized, how would the broker and guide be motivated to help families? What would encourage him to seek out those who needed help the most?

The role of the county agent in agriculture was created to provide analogous services to farmers. Some research would be required to determine how well this functioned, but it seems critical that a government guiding and counselling service would need some performance criteria, otherwise it would grow in a Parkinsonian manner. If agents worked on a fee basis for execution of identifiable tasks, they would have incentive to help "problem" families and those unable to find housing. The fee might have to be considerable, if the tangled problems of these families severely constrained their placement.

BRL performs this type of service for families with limited problems. For the task of beginning with a low-income family that cannot obtain its own dwelling and assisting it through all the hurdles to take title to a house rehabbed to FHA specifications, it obtains a fee of \$650. This, of course, covers considerably more than just guiding and counselling, but BRL acknowledges that to work with families with more problems would take more time and effort on their part.

Performance criteria for the service are necessary to develop an incentive fee schedule. Roughly, it seems likely that the lower the family income, the greater would be the task of enabling it to obtain satisfactory housing (even disregarding lack of resources), because of the more limited awareness and more objectionable behavior to be overcome. Research would be required to develop appropriate criteria, but they need not be very refined. (Only simple positive or negative correlations with various dimensions of the problem need to be identified.) One critical aspect of performance is success. BRL obtains its

fee only when the family takes title and its FHA mortgage. In ownership, foreclosure would be an indication that BRL did not perform its service well; in rental, eviction might be a similar indicator. For the fee system to encourage good service, early foreclosures and evictions should result in penalties to the agent (but only a fraction of the fee).

Fees are best paid by the recipient of the service. In view of the inverse relationship of the task to the family's income, this would be impossible. In the case of homeownership, it could be amortized within the mortgage, as the BRL approach does it. More generally appropriate would be for the government to offer the service under the fee system. Only when the recipient of the service signs a statement that he had used the service to obtain better housing would the agent receive the allocation for it.

There are many steps between this illustrative conceptual design and its implementation, but the program designer who sets out to develop a functioning system will find it helpful to weigh perceived incentives against constraints for each of the roles engaged in the process.

This section has presented a set of strategies whose effects, taken jointly, offer promise of significantly improving conservation of existing housing. The principal thrust is to enable and maximize choice in all possible cases, while trying to minimize the risks and strains upon low income families. This set of case studies has attempted to show how potential contributions of the low income sector to housing conservation are systematically discouraged

under some present programs and institutions set up to serve this sector, and that there is unrealized potential available through modifying our present approach.

The strategies suggested above, acting in tandem, will not assure the conservation of severely dilapidated and obsolete dwellings, nor will they solve all the problems of those who are severely dependent on custodial care -- but neither will present strategies. It is likely that they can do substantially more to conserve and encourage "a decent home and suitable living environment" for every American family as well as to curb trends towards increased dependency, because they relate the incentives more immediately to the dwellers. From a long range viewpoint, these strategies will be more efficient in helping substantial numbers come to terms with their housing problems than present efforts to induce quick responses from suppliers on behalf of the poor. Our first task is to bring about acceptance of such a longer range perspective.

CHAPTER VII - FOOTNOTES

1. Recall that suburban housing sells for 8-10 times gross annual income, roughly reflecting a half-life of ten years; Sternlieb found Newark inner-city housing selling for 3-4 times gross annual income in 1966; and King-Bison found Roxbury property selling for only twice annual income as adjoining abandonment set in on a major scale. The market was giving existing units a 50-50 chance of surviving two years.

2. UPA, Evaluation of BURP, p. 60.

3. See section VI.D.

4. Priorities, Inc. in Newark has developed such a program with mixed success.

5. Higher income families simply obtain FHA 221(d)(2) mortgage insurance; lower income families obtain mortgage interest subsidies under section 221(h) or section 235(j).

6. See Figure IV.A.1.

7. See sec. II.B for broad income assistance strategies related to improved housing.

8. See discussion in Appendix A.

9. Defining such regulation would be suitable for a separate study and cannot be undertaken here. In the cases it was observed that regulation in Rochester did not manifest the ill-defined arbitrariness encountered in Boston. Keeping regulations broad and simple no doubt rationalizes the process of their application. National standards would help.

10. Some BRL families presently own duplexes insured under sec. 221(d)(2).

## ABBREVIATIONS AND ACRONYMS

Due to their frequent repetition throughout this study, acronyms are often used. Initials and the programs, agencies or sponsors to which they refer are listed below.

BBURG	Boston Banks Urban Renewal Group
BHA	Boston Housing Authority
BMIR	Below Market Interest Rate (mortgage)
BRA	Boston Redevelopment Authority
BRL	Better Rochester Living, Inc.
BURP	Boston (Urban) Rehabilitation Program
CHPA	Citizens Housing and Planning Association
CRP	Community Renewal Plan
CPT	Housing Corporation of the Third Presbyterian Church in Rochester, N.Y.
FHA	Federal Housing Administration
FNMA	"Fannie Mae" - Federal National Mortgage Association
GNMA	"Ginnie Mae" - Government National Mortgage Association
HI	Housing Innovations, Inc.
HUD	U.S. Dept. of Housing and Urban Development
IRS	U.S. Internal Revenue Service
JTM	Joseph Tuckerman Memorial, Inc.
K-B	King-Bison Co.
LCH	Low Cost Housing, Inc.
MCA	Model Cities Administration

RHA	Rochester Housing Authority
RN	Rochester Neighbors, Inc.
SECD	South End Community Development, Inc.
SMSA	Standard Metropolitan Statistical Area
TAB	Tenants Association of Boston, Inc.
UPA	Urban Planning Aid, Inc.

Relevant Government Assistance Programs are summarized in Fig. IV.A.1.

## APPENDIX A - CASE STUDIES AND THEIR METHODOLOGY

This section investigates the pros and cons of various social science research techniques to justify the choice of the case study approach used in this thesis.

As a preliminary generalization, social research can be viewed as spread across a spectrum ranging from broad surveys to individual case studies. Given fixed outlay, breadth is traded for depth as one moves from surveys to cases -- facetiously stated, surveys point out how often "it" occurs, without telling what "it" is whereas a case can study what "it" is, without any clues to its generalizability or uniqueness. Depending on the ends sought, the researcher can choose a combination developed from strategies on this spectrum, including random sampling, polling, interviewing, in-depth and longitudinal studies, etc. The chosen mix reflects the balance between causal understanding and representativeness that one seeks.

Causal understanding of factors influencing housing as a system is just beginning to develop, if we take "housing" to refer to the "ecosystem" including supplier, dweller, maintainer, destroyer, etc. Theories on what causes deterioration, blight, or the rebuilding and replacement of the existing housing stock are practically non-existent. There is an absence of hypotheses to be tested in the conventional manner. Rather, there is need for causal hypotheses. These can be derived from functional analyses. At this point it may be more important to refine our understanding of "what it is" than merely determining "its prevalence." If we accept that there is a lack of coherent theory about



the housing ecosystem, theory building and hypothesis generation become more important than theory substantiation and hypothesis testing. The distinction is important, because many of the conventional research strategies are developed primarily for the latter purpose, leaving theory building to intuition or creative insight.

If there is a dearth of adequate housing theory, where is it to come from? Can more orderly search processes improve on speculation and insight? Hans Zetterberg examines the applicability of the "scientific method" to social research, and proposes an approach that combines theory building and testing in a way that suggests separating insight and information gathering may be crude or obsolete. He suggests that rather than test each hypothesis individually, a whole theoretical system of hypotheses can be erected, which gains its strength from the way the relatively minor parts add together coherently. In this system, each separate part seems almost arbitrary and with little strength of its own, but when the parts are interlinked logically, the whole has acquired a convincing coherence which substantiates the theory as it builds it. This thesis pursues this form of approach.

### Surveys as Instruments

Surveys have two separate aspects of interest to our analysis. A given survey can be both a research instrument and a political instrument. We will examine these aspects separately.

In essence, surveys point up correlations. Properly handled, they display the likelihood of events occurring simultaneously, but they offer no indications of any causal interrelationships.

Consider the following hypothetical table, displaying the results of a survey of housing conditions:

Fig. A.1.: Condition of Housing Stock by Tenure and by Race, in Percentages

<u>Housing Condition</u>	<u>Owners</u>		<u>Renters</u>		<u>All Dwellers</u>	
	<u>Negro</u>	<u>White</u>	<u>Negro</u>	<u>White</u>	<u>Negro</u>	<u>White</u>
Standard	50	80	30	40	40	65
Deteriorating	30	15	40	35	35	25
Dilapidated	20	5	30	15	25	10

This is just a simple permutation of the many possible forms in which survey results are presented, overwhelming the reader. This particular set of data can be used in support of any of the following:

- Whites own more houses, ergo, whites are more interested in ownership
- Negro tenant quarters are run down, ergo, they cause deterioration
- Standard houses house more whites, ergo, those houses attract whites
- Owned houses are in better condition, ergo, ownership is a panacea. etc.

While this example may appear overly simplified, research often follows this approach. Surveys as a research form are weak in identifying a causal chain. If we were inventorying Woolworth's, or if we were in the role of central decision-maker, charged with computing the cost of bringing the housing stock to a definable standard, then this approach is an appropriate one. But if we are concerned with a housing stock that is deteriorating, we need a research instrument that encompasses

causal factors in a manner that identifies them. Such causal factors might include previous tenure patterns, cultural or economic differences, migratory patterns, etc. -- common to these is a time dimension to illuminate changes over time. To find such causal factors, we must begin with thought models which originate in case studies and functional analyses.

Surveys identify correlations, but not causality. A survey serves as a net that sifts data, but there is nothing intrinsic in the instrument to prevent mere symptoms being correlated. Frequently, causal factors slip through the net in survey research and consecutive surveys do not overcome this. Analyzing the 1950 and 1960 Housing census for trends is a poor guide to the 1970 situation.

These shortcomings would be inconsequential if surveys did not have another aspect: political appeal. The survey is the ideal political document. To make a survey, a group works hard, studies the problem, and its output is in the form of objective scientific data. Yet it seldom challenges stereotypes (see the many conclusions which can be drawn from the survey above), and can safely be espoused without inducing the alienation that any specific course of action generates. The inherent ambiguity in survey data escapes nearly everyone -- as each interprets the data in his own way, or "reads the data through his own colored glasses."

An illustration of the intrinsic ambiguity of much statistical and survey data can be found by examining the repercussions to the Moynihan Report. Rainwater in his analysis of the controversy describes how the Report "backfired" into the author's face. <sup>(1)</sup> Carefully, Moynihan had assembled evidence which he felt

"showed" that the Negro family pattern reflected its socio-economic predicament. The evidence was in the form of direct correlations. But within weeks after the President delivered these findings in a message, the Report was scuttled and Moynihan found himself scomed as a racist by those who effectively applied an alternative thought model to his survey data:

Instead of:	socio-economic plight → family disorganization
they inferred:	family disorganization → socio-economic plight

Thus an argument intended to support income transfer strategies was remade into the racist case for "people change." Surveys can be thought to "prove" many different things, because they do not provide their own thought model. This is furnished, uncontested, by the beholder, generally without awareness on the part of researcher or beholder that the applied thought models differ. Therein lies both the political appeal and weakness of this form of research.

#### The Case Study as Instrument

Case studies have a different set of strengths and weaknesses. While they can lead to a functional analysis and a coherent image of the interrelationship of the factors, they are highly specific, and do not provide any guides on how to generalize the findings. The reader has no way of knowing whether he is examining a highly unique or very frequent phenomenon.

While not a case study, the following example conveys some of the spirit of case findings:

In Boston, Rev. Virgil Wood, a resident of the city's Roxbury area, told of the difficulty one Negro family had in getting police to respond to a call for assistance:

One family had called the police because of an incident in the area. They waited 10 minutes, 15 minutes, 20 minutes and there was no response. Then someone was smart enough to think of calling the police, saying "Get out here quick, there is a Negro beating up a white man." The police were there in two minutes.<sup>(2)</sup>

One good picture is worth a thousand words; similarly, one good case says more than many, many responses. This illustration communicates a tremendous amount of information, because it provides its own thought model, to be used in conjunction with other things we know. This instance is statistically invalid: we don't even know if the police were actually arriving in response to the first call, but the inherent logic of the situation suggests a "reasonable" explanation that is hard to refute. Note how much more effective this is than an expensive study, conducted over months, plotting the median response time of the police to calls from various areas in the city, analyzing the correlations of these times with socio-economic characteristics of the respective areas. And how powerful would these findings be, if stated in properly scientific language?

Some of the advantages and drawbacks of case studies are clearly suggested by this instance. A good case is seldom ambiguous in what it suggests, but detractors can always point to the insignificance of one instance, an "n=1." The more bounded a case, the simpler it is to communicate to the reader the inherent logic of the system. Erwin Goffman<sup>(3)</sup> has investigated isolated social systems such as prep schools, prisons, and asylums. In these cases, he presents

convincing evidence that such systems shape the behavior of each individual, whose behavioral responses simply reflect the systemic constraints. Since all the factors determining behavior appear to be included in the bounded system, we are prone to accept Goffman's conclusions about his institutions. Whether we infer from them to other, less bounded systems, is left up to us, but he has made such a persuasive case that individual behavior reflects systemic constraints that we are inclined to assume this may occur outside the bounded systems he describes as well.

Oscar Lewis has developed a technique of describing a way of life through case studies of individuals. <sup>(4)</sup> Although the bounds of the cultural systems he describes are much more difficult to identify, through masses of fascinating intricate detail, he implies the existence of a system no less constraining to individual behavior than Goffman's Asylums. The chance reader, skimming through The Children of Sanchez, may judge on his own preconceptions, wondering why Manuel doesn't pull himself together, stop toying with Garciela, knuckle down to work, and bring up his children properly. But this is missing the whole point of Lewis' method. The more careful reader is expected to put his own value structure or colored glasses aside, to "hear it like it is" from the Children of Sanchez. Assembled before the reader is a logical coherent picture, multi-dimensional in its Rashomon-effect, which suggests how the system, as perceived by each, shapes his behavior. Taken instance by instance, the actions could be viewed as fortuitous; but altogether they form a whole, in the same way that Zetterberg has suggested systems of theory be fitted together.

Those who have only scanned Lewis' books or read the reviews argued "whether there really is a culture of poverty," but the careful reader finds himself frequently challenged by Lewis' evidence as the stereotypes in his own mind about poverty are being rebuilt. But how can one generalize from a particular case? A case is presented with a wealth of detail, covering many different dimensions. Surveys on the other hand are restricted to very few dimensions or "assumed independent variables." An in-between solution consists of comparative cases, which are arrayed along one or several significant dimensions, to examine which of the possible inferences from the single case study hold across a range of instances. As resources allow, cases can explore more than one dimension, but the effort rapidly mushrooms if the level of specificity suitable to case studies is maintained. The researcher makes trade-offs of specificity against breadth.

### The Systems Approach

To this point we have briefly discussed some conventional instruments in social science research. But it is useful to see them in a broader context. Other fields have concurrently developed other approaches -- among them input-output models, servo-mechanism theory, as well as the concepts of positive and negative feedback and benefit cost analysis. These can be amalgamated into a theory of systems, fitting Zetterberg's outline. Such a theory of systems embraces a whole approach of analysis, rather than merely the instruments to be used in the approach. It strives to provide both overview and focus, by simultaneously building and testing theory in ways that surveys and cases by themselves do not.

Thinking in systems terms is very much in vogue, yet in spite of frequent avowals by "would be" practitioners, clear focus of it is seldom encountered. Weber, Durkheim, Michel, and more recently Goffman, O. Lewis and Ashby<sup>(5)</sup> offer good illustrations of its productiveness in generating new insights. As a conceptual approach, it appears both simple and alien to most minds. Witness how easy it is to fault decisionmakers -- Johnson, Nixon, college presidents, mayors, students -- for not doing what we think they should, or what we, in their place, think we could have done. Similarly, witness our anti-poverty strategies that have set out to change those people tangled in a "culture of poverty." It seems easier to think of "people change" than "process change" which can only be grasped by viewing a given situation in systems terms. Seldom do we pause to consider how the erratic behavior of these people may be determined by systems -- that their behavior is data to us, that this behavior reflects and is shaped in response to perceived opportunities and constraints systematically determined.

Goffman, in his study of Asylums,<sup>(6)</sup> developed this analytical approach in describing a bounded, homeostatic system, bent on its own survival. Weber and Michel support the view that homeostasis and survival quest may be much more universal, to be found in less bounded systems as well. If we make the assumption that organizations strive to survive, and beyond that to maximize their attainment of ends meaningful to them, then their behavior is information to us. Monitoring their actions will give us insight into how the system looks from their point of view.

One of the principal impediments to developing a systems understanding of housing is that the system includes all of us. Goffman's task was relatively easy,



since he could examine his closed systems as an outsider, simply identifying the entry point of other influences. But if we accept his tentative hypothesis and invert it, we can let the behavior of each and every actor group in housing tell us the constraints each actor perceived. This approach will lead us to insights and inferences which can then be checked out, both against reality, and for internal coherence. If we can develop it, we have a powerful tool for examining systems that contain us within their bounds. This exploration follows the guidelines set by Zetterberg.

### The Nature of Systems

To examine any system, one must identify its bounds and set up frames of reference. This is particularly difficult in systems that include us since our roles are multiple and changing, with respective shifts in viewpoint. At times every man thinks of himself as outside the system, dreaming of comprehensively orchestrating a rational order; at other times he sees himself within, as "change agent" working for "basic change," whatever that is. Particularly the professional planner (although every man is to some extent a planner) is quite a chameleon regarding his present role in "the system."

Heraclitus, ages ago, perceived the constancy of change. Although he talked of stepping into a river, it is more appropriate to think of change as that river; subsystems can move with it, ahead of it, or against it. Given the constantly shifting relationships between the parts of the whole, the sub-systems are continually

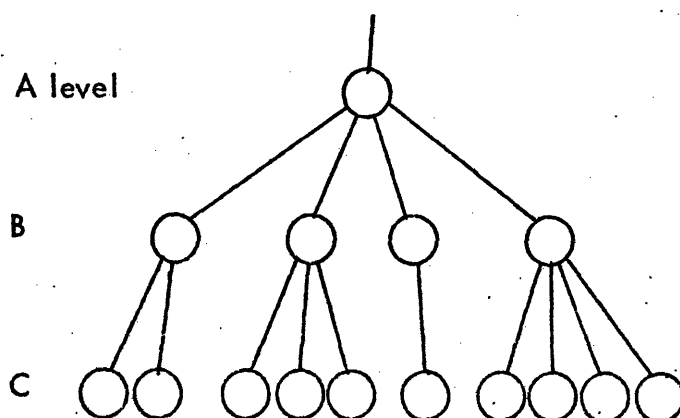
called upon to respond adaptively in order to survive. They need monitors of the interacting affects of different elements within the system, and with its surroundings.

In the past, when change was less apparent, planners were called upon to fix the over-all design, comprehensively taking all elements into account. It was assumed that the entry points of change could be controlled, its effects foreseen, and the flow of change channeled. But recently, the figure-ground relationship seems to have reversed, and change is omnipresent, and we are upon rafts of systems within it, attempting to monitor our progress against various frames of reference. Social science research techniques are in this kit of monitoring instruments -- our lodestone and astrolabe, so to speak.

### Identifying Subsystems

To do this monitoring, a number of disciplines have attempted to impose rationality on the system, to aid in identifying its components. One of the most powerful analytical tools is the dendritic model:

Fig. A.2. The Dendritic Model



This abstraction is frequently viewed as mapping the sequential decision process over time, or alternatively, diagramming the functional interrelationships among hierarchically ordered decision-making entities. While useful in describing phenomena from Darwinian evolution, to military organizations, note that the tree does not account for the spillover effects of decisions at one node upon others upstream, or outside the linkage.

The dendritic model is a convenient abstraction, leading to insights by examining its "fit" when applied to inadequately understood phenomena. It is most suitable to phenomena manifesting irreversibility or one-way influence patterns, which is merely a broad subset of all phenomena.

A close look at the city reveals that in too many ways it is not a simple hierarchical tree, it is not part of the subset of dendritic systems. C. Alexander's article, "The City is not a Tree," suggests that a lattice is a more apt description. There are cross-ties between subsystems, and ordering onto levels can only be done inconclusively -- there may even be circular linkages: X controls Y controls Z, which in turn controls X!

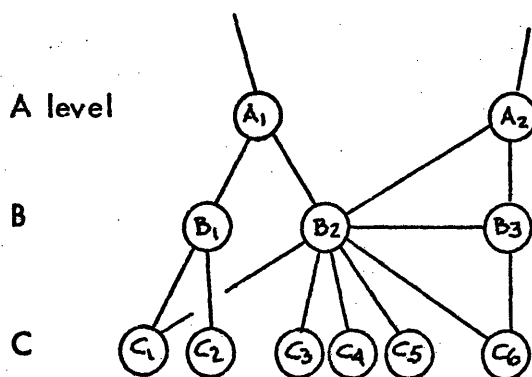
Hierarchical systems are presumed to have goals that can be defined -- all points within the system are working toward a common goal. Strategies to attain such goals could probably be objectively determined. But assuming that any system has a common goal may be a dangerous over-simplification.

Consider Marris and Rein's Dilemmas of Social Reform, wherein the authors make the assumption that the goal of reducing juvenile delinquency was commonly

shared. As described in their chapter on research, the program implementers anticipated unambiguous evidence of the efficacy of certain approaches, and that the system's over-all commitment to the goal would not permit backsliding once the route of attaining this goal was clearly demonstrated. Instead, the system swallowed the efforts almost without trace. In explanation, Marris and Rein describe the goals actually pursued as more immediate, more homeostatic and survival-oriented. They suggest that better information and communication would facilitate attaining the more distant goal, but this may be a fallacy that arises from assuming that the system is primarily dendritic.

Accepting the concept of systems with lattic linkages (but not circular), introduces enough complexity to let the ultimate goals sink to low priority or out of sight completely.  $C_1, C_3, C_4, C_5, C_6$  may find themselves serving  $B_2$  as a commonly acceptable end, instead of clarifying whether they pursue  $A_1$  or  $A_2$ .

Fig. A.3. Lattic System (Partial Glimpse)



In this study  $A_1$  might be upgrade neighborhoods,  $A_2$  might be assist low income households, and  $B_2$  would be concentrate on standard housing.

Mutually independent branches find themselves at cross-purposes at the juncture points. Possibilities of competitive games between branches of the system arise: selective perception and selective communication between decision points becomes dominant. Staffing the various positions with human actors, we find each has a differing scope of awareness. Some accept the hierarchy implicit in the dendritic model and do not look outside it; others are aware of impinging elements from outside, or more ultimate consequences of decisions reached. To retain his influence, the actor at  $B_2$ , a local FHA director, may project very different images to each of the others interlinked with him.

Concurrent with the increased complexity, advocates and seekers of shortcuts have arisen. In short, planners have developed new roles for themselves, beyond their historic task of fixing the overall design in light of "the public interest." They have become engaged in the system. The advocates lobby for the under-represented; the shortcutters try to save time by shortcircuiting links in the cumbersome system. (7)

The simple dichotomy of working within or outside the system (or the Establishment), becomes more elaborate: it is a question of bounds of the system within which one is working. In the hierarchical model (Fig. A.2.)  $B_2$ 's system covers  $C_3$ ,  $C_4$ ,  $C_5$ , and these are all part of  $A_1$ 's system -- the bounds are easy to identify. In the Lattice system (Fig. 2), the system impinging on  $A_3$  is more

difficult to isolate. It is perhaps useful to consider the levels as occurring on layers of an onion. Operating as an outsider would be equivalent to  $B_2$ 's influence over everything at the C Layer, and acting within the system would be analogous to layers outside as well as inside B. But this model, too, is a conceptual simplification, that still does not include circular situations, where X controls Y, controls Z, which in turn controls X.

Perhaps this has sufficiently muddied the waters surrounding these systems. Postulating their dendritic nature is only a crude first approximation, frequently of debatable utility, and treacherous if accepted without question. But, what alternatives are there?

Patterns of communication between parts of the system can be revealing. The bounds and interfaces between parts of the system become increasingly important to know. In The Communication-Based Theory of Growth, Meier sketches a fascinating study that offers promise in examining these urban processes. If the necessary vocabulary could be developed, and sufficient time, access, and resources were available, then monitoring the rates and states of communication between the parts of the system would be illuminating.

A short-cut first approach to this proposed monumental undertaking of Meier's, is to monitor behavior, to follow the maxim, "actions speak louder than words." As already suggested at several points above, specific actions and behavior offer clues as to the nature of the system as perceived by the participants in the action. When a Nixon President, or a Mayor White, or anybody acts, it is productive to

consider their actions as those of a rational, average being, responding to forces that he feels upon himself -- and certainly it is more productive than merely to fault each for behaving otherwise than we'd expect. For in that very difference lie the clues that yield tentative insights into the nature of the system.

Actions do speak louder than words. Pronouncements and verbiage are frequently just a screen that has been deliberately erected to shield us from the action to which we should be listening. The screen is deliberate because in the lattice-system, an actor of B <sup>2</sup> needs protection in order to survive in the present system which confronts him with conflicting goals. For us identifying what occurs behind the screen is vital to understanding the systems interlinkages.

### Two Types of Social Research Information

Weiss and Peattie <sup>(8)</sup> have indicated that social research deals in two classes of information. On the one hand there is contextual, or "hired hand" information, which consists of the kind of data properly found in the public records; on the other is a more closely guarded form of information. This latter type is "vital" in the awareness of systems. It involves knowledge of intervention points, spillovers, and implicit linkages, which are normally kept under cover. This "vital" information is carefully transacted as a form of power. However, the alert observer can discover it by probes and by observing the system responses. This probing and monitoring can either be specifically arranged, or conceptually imposed upon the real world. Bearing systems concepts in mind, a tremendous amount can even be learned from daily newspapers.

If vital information is so useful, why can't we specify it and get it?

Precisely because it is a form of power in the systems that include us -- and this power brings with it the potential of altering and changing systems within whose bounds we are located.

If we return to the dendritic system (Fig. A.2.), and consider evaluating the nature of the system under  $B_2$  we can easily recognize that  $B_2$  is interested in evaluating  $C_3$ ,  $C_4$  and  $C_5$ . However,  $B_2$  will strive to influence any evaluation of itself, as it does not wish to have itself compared unfavorably to  $B_1$  or  $B_3$  -- such findings would be confidentially handled at the A level. Findings about each level are not threatening to the level above it. However, they may have life or death consequences to others at that level, who will therefore strive to influence the evaluation, only furnishing information selectively if possible. The "vital" information is kept and transacted behind the screen of verbiage, which actors within the system jointly find convenient to erect and maintain. (9)

This outlines the problems inherent in examining a system from within, but it also suggests useful strategies for exploring it. In the dendritic model, while  $A_1$  holds life or death power over the existence of the B's, all the B's have a common interest in understanding  $A_1$  as completely as possible, so each can strive to meet the demands of  $A_1$ . The B's are in a form of competition, and are actively transacting information on a quid pro quo basis among one another. In these transactions, they are willing to include any peer who is non-threatening to them, and who can



offer fresh insights about the nature of A. Each will bargain in information as long as the returns to him in the form of more vital data, exceed the costs. Any bargainer is welcome in this market-place if he is prepared to offer fair information, and will stick to the implicit rules, which provide that anything exchanged be used for purposes non-threatening to the seller. If he transgresses these, he is summarily ostracized. Any interviewer can play this role, trading quid pro quo.

The interviewer wishing to make his information general or public, faces a special problem. The trading of information bits has been highly specific, dealing in aspects of the subsystem surrounding only the common interest of the B's. Before making it public, he must transform his bits in ways non-threatening to his informants, again shielding them. If he errs in this, his sources dry up and he is ostracized. (10)

#### Methodology Used in This Thesis

At this juncture it becomes useful to bring together the reasons for examining comparative cases of housing rehabilitation. Our objective is to increase our understanding of the inner city housing production system for low income users. This is a system that includes us within its bounds. If the researchers are within a system, a different repertoire of research strategies is called for, than when systems are being probed from the outside. The contextual, or "hired hand" information is essential as background but the clues that offer insight into the

system and ways of changing it are "vital" information. Vacancy rates, dweller attitudes, analyses of the housing stock and user populations and the like are blunt instruments in probing for processes and causal factors.

Instead, the principal task here has been to seek out "vital" information, by bargaining for it with the actors engaged in the process. The choice of small cases in seeking vital information arises out of several reasons:

- Small cases can more easily be grasped in their entirety, and seen from several points of view.
- Access to key individuals is easier for the researcher, since he can rapidly master enough of the situation to offer relevant information on a quid pro quo basis.
- Since the cases are out of the limelight, more trial and error, and more innovation are possible than in larger scale operations.

Scale is an extremely important factor, however. What may hold across a range of instances in the small scale may not be possible at a larger scale; similarly, larger efforts clearly have possibilities out of reach at the small scale. This thesis is exploring and testing ways of gaining insights into process, not answers. The reason for investigating small cases lies in their accessibility and the opportunity to gain a sufficient overview over few enough actors to obtain "vital" information.

The approach of analysis assumes that monitoring an on-going process reveals a series of actions which reflect the constraints perceived by each participant as he attempts to better his lot. By inference, the linkages of the housing system surrounding that point are illuminated.

Each interview was designed to explore why the actor is doing what he does -- asking, in effect, what's in it for him. To trade information, as a peer, there was a conscious effort to pay for information by other information, useful to him. Inevitably, confidential information was involved -- the sort found in "read and destroy memos." This presents the researcher with a dilemma. He must protect his sources and cannot offer such information as evidence -- yet as he abstracts it, the persuasiveness is lost, and statements and inferences remain as mere assertions.

The choice is clear: stick to those assertions that can be documented, or attempt to go further, hoping the reader will tolerate some assertions if they can be joined in Zetterberg's manner into a model that attains self-sustaining coherence. This thesis chooses the latter approach in hope that the reader will bear with us through the effort.

APPENDIX - FOOTNOTES

1. Rainwater and Yancey, The Moynihan Report and the Politics of Controversy.
2. U.S. Commission on Civil Rights, A Time to Listen . . . A Time to Act, p. 24.
3. Ervin Goffman, Asylums: Essays on the Social Situation of Mental Patients and Other Inmates.
4. Oscar Lewis, The Children of Sanchez. See also Elliot Liebow, Tally's Corner for a similar study in our society.
5. Weber, Durkheim and Michel are part of classical sociology; Ervin Goffman and Oscar Lewis have been footnoted above. See also, W. Ross Ashby, Design for a Brain.
6. Goffman, op. cit.
7. Moynihan was attempting this role. In this thesis, the role and report of Urban Planning Aid, Inc. in evaluating the Boston Rehabilitation Program demonstrates how advocates attempt to manipulate the system.
8. Robert Weiss and Lisa R. Peattie develop this distinction in their MIT sociology seminars.
9. James M. Beshers, in his sociology seminars at MIT enjoyed showing students what was going on behind the "screen" of rhetoric. Urban Social Structure, chapter VII, in the discussion of the one way visibility of status symbols, furnishes a drier exposition of the nature of screens.
10. E. Banfield is master at this technique of research, but others, like Martin Rein also practice it.

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