Producing and Preserving Affordable Rental Housing: A Brief History of Federal Policy

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Four Generations of Policy

• Generation One: Public Housing
• Generation Two: FHA Plus
• Generation Three: Tax Credits
• Generation Four: Preservation

– Note: In addition, 2.2M renters (average income of $13,568) receive portable Housing Choice Vouchers for use wherever an owner accepts them.
Generation 1: Public Housing

• Built 1930s – 1960s
• 1.1M units currently
  – Median renter income: $14,312
• Federal government paid for construction and still (inadequately) subsidizes operations to ensure affordability
• Local public agencies build, own, manage
  – Too often poorly built, maintained, managed
  – Poor public image; some projects demolished
• $26B rehabilitation backlog
Generation 2: FHA Mortgage Insurance + Section 8 Rent Subsidies

• Late 1960s-early 1980s
• Currently 1.2M apartments
  – Mean renter income: $12,539
• Privately built, owned, and managed
• HUD/FHA insures (guarantees) mortgage up to 90% of building cost – above market value
• Section 8 rent subsidies cover mortgage payment and ensures affordable rents
• Private owners can opt out and go to market
Generation 3: Tax Credits

- 1987-current
- Privately built, owned, and managed
- Currently 3M units
  - 30% of all comparably affordable U.S. apartments
  - Median renter income: $17,152
- Tax credits generate equity investments
  - Mostly banks per Community Reinvestment Act
- Private mortgage and public gap funds complete financing
- Exposure to market risk adds discipline
- <1% cumulative foreclosures over 30 years
Generation 4: Preservation

- Often use tax credits to rehabilitate/redevelop Gen 1 (public housing) and Gen 2 (FHA/Sec 8)
- Public housing
  - Rental Assistance Demonstration (RAD) converts public housing to Section 8 rent assistance
  - Redevelopment as mixed-income with broader revitalization and services (Choice Neighborhoods)
- FHA/Section 8
  - Retains private owner participation by raising rents to market levels (Mark-Up to Market)
  - Transfer of rent assistance to other properties can deconcentrate poverty