HOW A HOUSING BILL CAN UNDERMINE LOW-INCOME HOMEOWNERSHIP

The House of Representatives soon will be considering H.R. 4, a housing reauthorization bill regarding the transfer of public housing management functions and ownership from the government to tenant management corporations--generally known as TMCs. The bill, sponsored by Democrats Henry Gonzalez of Texas and Fernand St. Germain of Rhode Island, contains some welcome measures to increase tenant control of public housing projects. It stops far short, however, of helping poor Americans who want to become homeowners by acquiring a stake in public housing. Much better for low-income Americans would have been last year's bill, sponsored by Republicans Jack Kemp of New York and Richard Armey of Texas, which passed the House with overwhelming bipartisan support. Its urban homesteading provisions would have extended the opportunity of homeownership to public housing residents and repudiated failed federal housing policy.

Impeding the Poor. By contrast, this year's Gonzalez-St. Germain bill impedes the ability of the poor to gain ownership of their residences. For one thing, the bill imposes collective bargaining restrictions on all tenant management contracts. For another, it restricts the tenant's freedom to purchase and sell his or her unit in a public housing project. These burdensome regulations will reduce sharply the incentive for residents to purchase public housing and improve their living standards. For these reasons H.R. 4 is opposed by many organizations that have been working to help the poor, such as the National Association of Neighborhoods, the National Urban Coalition, the Council for a Black Economic Agenda and the tenant management corporations at Kenilworth-Parkside in Washington, D.C., and Cochran Gardens in St. Louis, Missouri.

A comparison of H.R. 4 and the Kemp-Armey proposals highlights the different incentives created by the bills. The issues are:

1) The right to buy. H.R. 4 says that the Public Housing Authorities (PHAs), the federal agents responsible for public housing, must certify the sale before tenants "may" be provided with the opportunity to purchase units. Kemp-Armey does not require PHA approval and says that public housing residents "shall" be provided with homeownership opportunities. Given the record of the federal bureaucracy, the "may" in H.R. 4 will probably turn out to be "never." Without the Kemp-Armey right-to-buy guarantee, PHAs probably would seek to preserve their contracts with the federal government, which they could lose if public housing tenants owned their own units. The PHAs thus could be expected to block or veto housing sales as they did in the 1970s.

2) Conditions of purchase. Kemp-Armey stipulates that the purchase price of housing may be no more than 25 percent of market value of the property involved, and provides loans through PHAs at no higher than 70 percent of market interest rates. The price discount and low-interest mortgage would give low-income Americans a real chance to become homeowners. H.R. 4 offers no discounted price or mortgages; its prices would be set by the Secretary of Housing and Urban Development (HUD) in consultation with others.

3) Conditions of resale. H.R. 4 prohibits the resale of property to anyone but the tenant management corporation, PHAs, or a lower-income family residing in or eligible to reside in lower-income housing. HUD would set the resale price, equal to the tenant's equity, plus improvements and an allowance for inflation. By contrast, Kemp-Armey would not restrict resale price, terms, or potential buyers. Its only serious restriction would be measures to prevent quick resale by speculators. By allowing owners eventually to make a profit on the sale of their unit, the Kemp-Armey bill gives owners the incentive to work for neighborhood stability and asset appreciation from home improvements.

4) The Morrison Provision. Representative Bruce Morrison, a Connecticut Democrat, added a provision to H.R. 4 that requires the payment of the "prevailing wage" for "contracting out" services. The general effect would be to require TMCs to pay union rates for on-site maintenance and other development services. This would undermine the ability of the tenant management corporations to keep operating costs low and to employ low-income inner-city residents for project maintenance and modernization. Inflated budgets would mean fewer jobs for public housing residents.

Over the past two decades, the demolition of deteriorating public housing projects has highlighted the failure of federal housing policy. At the same time, however, dozens of housing units have been rescued from the wrecking ball by transferring management functions and homeownership from government to project residents. Poor Americans, when given the freedom and opportunity to manage or own their dwellings, have proved that they could do so. This has helped break the seemingly permanent cycles of crime and dependency. Low-income renters can be transformed into homeowners. This will not happen from H.R. 4 as now written. The bill merely provides lip-service to low-income homeownership while stifling the incentives needed to unleash the full potential of tenant control.

Peter T. Butterfield
Research Assistant

For further information:

"Up From Public Housing," Editorial, The Wall Street Journal, June 1, 1987.

"Privatizing Public Housing to Help the Poor," in Stephen Moore and Stuart M. Butler, eds., Privatization: A Strategy for Taming the Federal Budget (Washington, D.C.: The Heritage Foundation, 1987).