

No Room To Let **by Dan Jacoby**

For years, politicians have talked about "the crisis" of affordable housing, and how we need to have more of it. Every time an election rolls around, we hear about new "plans" to create more affordable housing, yet somehow that housing never materializes.

While federal, state, and local agencies have a variety of programs, they all have significant problems. For one thing, each program is separated from all the other programs, and consequently each individual program has its own set of rules, paperwork, and red tape. The programs also fail, as do the politicians, to address the root cause of the problem.

The problem is not with supply and demand. While vacancy rates in New York City are substantially lower than many other urban areas of the country, there are still plenty of units available, and plenty of room for more construction.

The problem is not with the cost of upkeep. Taxes, utilities and maintenance costs are comfortably below the level needed to be affordable for the vast majority of New Yorkers. Even with the large property tax increase of 2002, New York City's property tax rates are still lower than they are in most of the country.

The problem is that the cost of land and construction is prohibitively high. By the time an apartment is ready to rent, the landlord has such an enormous debt that an exorbitant rent must be charged in order for the landlord to pay the mortgage. Unless landlords can find a way to lower their debt, and the cost of paying off that debt, affordable housing for middle- and working-class New Yorkers simply cannot be made available.

Most government programs pay landlords over time, by supplementing the rent tenants pay, either through direct payments to landlords or via tax breaks. This is the basic concept behind Section 8, 80/20, LIHTC, and Mitchell-Lama programs. One problem with the method behind all these programs is that the government must continue to pay landlords over many, many years. The result is that these programs "run out" eventually, forcing tenants to move out, often with nowhere affordable for them to move to. Another problem with many of these programs is that tenants whose incomes rise significantly are still in the programs, even if they can afford market-rate apartments.

What's worse, most of these programs tend to lump low-income renters together, separating – or segregating – them from the rest of society. As a result, the neighborhoods where low-income people live have fewer banks and shopping centers, less access to mass transit, worse schools and fewer local services. Instead of helping people work their way up the ladder, these programs tend to lock people in to a multi-generational lifestyle of hopelessness and despair.

We need an affordable housing system whereby landlords can afford to pay off their mortgage, low- and middle-income tenants can get decent, affordable apartments, and the government doesn't have to pay for the same apartments over many years. In addition, such a system must mix low- and middle-income tenants with upper-income tenants and owners so that equal opportunities are available to everyone in society. I suggest the following:

Instead of paying landlords over time, the government should help landlords with a single payment in one of two ways: 1) Pay them a one-time fee, designed to lower their debt early (and reduce significantly the amount of interest the landlord will pay over time); 2) Refurbish buildings the government gets through various means, and sell them to landlords at a reduced price. In exchange for getting such a tremendous break on their initial cost, landlords would then have to provide housing at a reduced rate, using a simple formula based on each tenant's income.

The formula would set the rent, plus an allowance for basic utilities, for each tenant based on 30% of the tenant's income. Overall, the landlord's average tenant could make no more than a certain percentage of area median income. If that overall percentage were 90%, for instance, then if one tenant makes 110% of median income, then either one other tenant must make no more than 80%, or two tenants, each of whom makes no more than 70%, could even things out. (Note: "Area median income" must be redefined to mean the local area, not some larger metropolitan area that includes wealthy suburbs, as it is now defined.)

Once a tenant is in place, the rent is adjusted on a regular basis, perhaps every two years, based on the tenant's income over that time period. If the tenant's income rises, the rent rises accordingly. Since such a system would result in a mix of lower and middle-to-upper income people living in the same building or local group of buildings, the lower income tenants would benefit from the better services described above. Therefore, there is good reason to believe that most people who would rent an apartment under this plan would have incomes that tend to rise faster than the median income; this means that the landlord's total rent also rises faster than costs.

What happens if a tenant leaves? The apartment would then be rented to a new tenant. That new tenant's initial income would be limited, based on the old tenant's original income and the length of time that tenant had occupied the apartment. For instance, if the original tenant moved in with an income of 80% of what was then the area median income, and stayed six years, the new tenant could make no more than 85% of current area median income.

The idea here is that the new tenant will most likely pay less rent than the outgoing tenant paid. As a result, landlords would have the obvious monetary incentive to keep tenants in place. This is a major difference from other programs that have no such incentive. Since under this plan a landlord would want to keep tenants in place, the landlord is far more likely to keep the building in good repair.

Finally, landlords with an apartment that has been in the program for, say, fifteen years could take that apartment out of the program and charge market rates simply by paying a fee. That fee would then pay to bring a replacement apartment into the program. The result is that for every unit that is removed from the program another one takes its place.

Variations – a landlord could, for a smaller government subsidy, make only 80% of the units available for this program while the other 20% are rented or sold at market rates. This would not only save the government money, it would make the program more attractive to landlords and result in a more complete mix of income levels.

There are many specifics to work out. For one thing, what happens if a tenant gets married - or divorced? What happens if a tenant has children and needs a larger apartment, or if minor children grow up and leave the nest? What tenants would qualify for what size apartment to begin with? These questions don't require reinventing the wheel; they are already answered with programs currently in place.

This is not a complete plan, but it could be the basis of a plan that works, not only to provide affordable housing for low- and middle-income tenants now, but also to keep providing those affordable apartments, with no ongoing cost to taxpayers, indefinitely.

One more question - where will the money come from? As various affordable housing units are removed from their programs, the government stops paying for them. That money can be used for this new program. That won't be enough to make a significant difference; some extra "start-up" money must be used for a few years. Once the program begins, however, more and more money will become available as more apartments are removed from older programs.

Meanwhile, the number of affordable housing units will only continue to rise.

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