The Homeless In Contemporary Society

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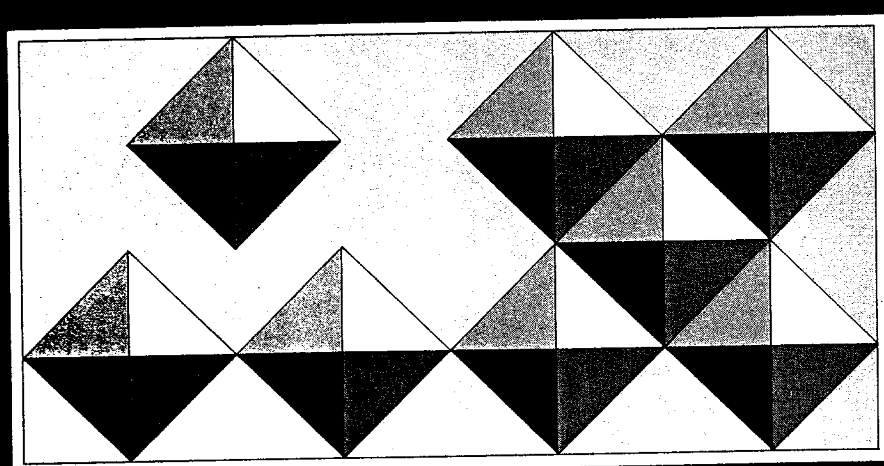

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Homelessness

A Housing Problem?

MICHAEL S. CARLINER

Is homelessness a housing problem? In one sense, it must be, by definition. However, advocates on behalf of the homeless, shelter providers, and others have identifed a lack of affordable housing as a major cause—or the principal cause—of an apparent explosion in the national incidence of homelessness. While the availability and affordability of housing is certainly a problem, there has been no equally extraordinary deterioration in national housing supply or affordability in recent years.

By many measures, the housing situation actually appears to have improved. Construction has accelerated, vacancy rates have increased, overcrowding has diminished, and, despite sharp cutbacks in new budget authority for housing programs since 1979, the number of households benefiting from federal assistance has continued to increase. While other measures, such as the level of real rents, present a less sanguine picture, they do not document any substantial decline in national housing availability or affordability.

There have, however, been changes in the economy, demographics, income distribution, and national housing policies that have created housing problems in certain places and for certain groups. Those changes and those problems have resulted in homelessness that is more visible and less easily dismissed as a matter of choice on the part of the homeless.

Evidence of the Supply

The average rental vacancy rate in the first quarter of 1986 was 6.9%, the highest since 1967. Vacancy rates were lower for less expensive units, but that is not unusual. The vacancy rate for low-rent units has increased since 1981, along with the overall rental vacancy rate.[1] Moreover, vacancy rates are higher for one- and two-room units than for larger units and higher for units lacking plumbing facilities than those equipped with complete plumbing.

Demolitions of housing units (excluding mobile homes) have occurred much less frequently in recent years than in the 1950s, 1960s, and early 1970s when urban renewal and highway construction brought wholesale destruction of many low-rent housing units. Available data indicate that the number of demolitions have continued on a steady downtrend into the 1980s, despite a boom in commercial construction. The rate of abandonment or loss due to natural disasters also appears to have been no higher recently.

One widely quoted figure for the elimination of low-rent SRO (single-room occupancy) units suggests that a million SRO units were lost to the housing stock between 1970 and 1979.[2] This estimate was based on Census Bureau data on the number of one- and two-room housing units without complete plumbing. A closer examination of the data reveals, however, that most of those units were in nonmetropolitan areas and were probably rural shacks rather than units in SRO hotels. Thus, while there certainly have been losses from the supply of SRO units, the magnitude of those losses is not known, and there is no evidence that the loss rate has increased in recent years.

Another indication of the availability of affordable rental housing is the level of rents. Since 1981 real (inflation-adjusted) rents have increased at an accelerated rate. Nominal rent increases have actually become smaller, but measures of overall inflation fell even more. The rent data support the notion that rental housing has become less affordable recently, but such data hardly provide evidence of a housing crisis.

The number of households[3] with income below $10,000 (in 1983 dollars) increased from 8.9 million in 1974 to 11.9 million in 1983, while over the same period the number of units renting for less than $250 per month (in 1983 dollars) fell from 10.8 million to 8.8 million.[4] The decline in the number of low-priced units at the same time that the number of low-income households increased is partly a reflection of the increase in real rents mentioned above in addition to an improvement in the average size and quality of the housing units occupied by households at all income levels. The trend toward higher-quality housing, despite higher cost, suggests perhaps that the choice of lower-quality housing at lower cost simply was not an option.

Further evidence that availability of low-priced housing is problematical is provided by the experience of the federally funded Section 8 program providing rent subsidies to tenants in existing housing. Under that program, households selected by local housing authorities are required to find housing that meets certain quality standards and that rents for no more than a specified "fair market rent." Despite the large subsidy available under the program, the majority of households selected are unable to find housing that qualifies within a two-month time limit and must forego benefits. Single-parent families have been particularly unsuccessful in finding housing under the program. This program will be discussed further below.

Sources of Low-Income Housing

A key fact of life in housing markets is that unsubsidized new construction or substantial rehabilitation of low-income housing is not economically feasible. The rents that low-income households can afford often are not enough to pay operating costs, much less the interest on the loans required to finance new construction. Except to the extent that subsidized housing production is made available, poor people must depend on older housing that trickles down from higher-income groups. In housing market analysis, this trickle-down supply process is usually called "filtering."

The classical model of urban housing markets assumes that the affluent classes will build new homes in areas that were previously undeveloped, leaving behind aging housing units that then become accessible to the poor.

Most of the literature on urban land use and the filtering process has been theoretical in nature, but the few empirical studies of housing markets in the 1950s and 1960s tended to confirm the classical model and the filtering hypothesis.[5] It is not clear, however, that this process is typical or reliable now, if it ever was. The phenomenon of gentrification and the rapid increase in the number of affluent nonfamily households and childless couples in the 1970s raised the demand for older urban housing. Rather than passing to households with lower incomes, it has become common for housing to filter up to higher-income groups. The flow of older units to low-income people seems to have been short-circuited.[6]

To the extent that this reverse filtering of housing is occurring, it could help to explain an increase in homelessness. This aspect of the operation of housing markets deserves further study.

Back to the City

One factor that may have contributed to an increase in homelessness and contributed even more to the visibility and recognition of homelessness in the 1980s is a shift of net migration flows away from nonmetropolitan areas and toward metropolitan areas. During the 1970s, the long-term trend toward greater urbanization was interrupted and apparently reversed. Nonmetropoiitan areas and smaller metropolitan areas experienced rapid growth at the expense of large metropolitan areas. The New York City metropolitan area, in particular, experienced massive out-migration. Beginning around 1980, the situation reversed. Metropolitan areas have shown significantly higher population growth rates than nonmetropolitan areas.

The reasons for these variations in migration flows are matters of debate, but they undoubtedly were influenced by the changing fortunes of the natural resource-based industries that are concentrated in nonmetropolitan areas. The homeless did not necessarily participate in these migration flows, but the net migration into metropolitan areas probably displaced many poor people and contributed to homelessness in those areas.

Table 7.1 shows the population in 1970, 1975, 1980, and 1984 of the ten largest metropolitan statistical areas. Of the ten, six experienced declines in population over the 1970 to 1975 and 1975 to 1980 periods, but only Detroit lost population since 1980. Moreover, of the four that experienced population growth in the 1970s, all but Houston have grown faster in the latest period. The sharpest increases were shown by New York, which went from a -0.93% growth rate to a +0.29% growth rate, and by Washington, which went from +0.34% to +1.31%.

The greater visibility of urban homelessness relative to rural homelessness and the concentration of media attention in urban areas generally and especially in New York, Washington, and a few other key cities, together with the population shift, may have been the key to the growing recognition of the problem of homelessness.

TABLE 7.1
Population
in Major MSA's

	Population (000)				Annualized Percentage Change		
MSA	*1970*	*1975*	*1980*	*1984*	*70-75*	*75-80*	*80-84*
New York	9,081	8,685	8,282	8,377	-0.87	-0.93	0.29
Los Angeles	7,043	7,117	7,492	7,901	0.21	1.05	1.37
Chicago	6,102	6,091	6,063	6,128	-0.04	-0.09	0.27
Philadelphia	4,830	4,763	4,721	4,768	-0.28	-0.18	0.25
Detroit	4,559	4,521	4,482	4,316	-0.17	-0.17	-0.92
Boston	3,718	3,710	3,665	3,695	-0.05	-0.24	0.21
Washington, D.C.	3,049	3,205	3,259	3,429	1.02	0.34	1.31
Houston	1,902	2,249	2,762	3,164	3.65	4.56	3.64
Nassau-Suffolk	2,563	2,594	2,612	2,653	0.24	0.14	0.40
St. Louis	2,428	2,381	2,377	2,398	-0.39	-0.04	0.23

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

Demographics of the Homeless

As a consequence of the baby boom, which peaked in 1957 and continued into the early 1960s, the number of people in their late 20s and early 30s in all aspects of life, including homelessness, has increased. However, the growth in the number of younger homeless is more than simply a proportionate reflection of the nation's demographic profile. Partly as a consequence of the disproportionate size of the baby boom cohort, unemployment has been particularly severe for that group. The breakdown of family structures has been most evident among this group as well.

In contrast, the elderly, who perhaps represent the stereotype of the traditional homeless, have fared relatively well of late. Due to Social Security and other benefit programs, the poverty rate among the elderly is now lower than for the overall population. In the housing market, the elderly enjoy preferential treatment.[7] In part because of biases in government subsidy formulas, as well as greater community acceptance of elderly housing compared to low-income family housing, a disproportionate share of subsidized housing production has been targeted to the elderly. Moreover, even without external influences, landlords generally prefer the elderly as tenants.

A group with an exceptionally high poverty rate that also faces especially severe difficulties in finding affordable housing consists of female-headed families with children. A large and increasing number of rental properties have explicit no-children policies, and many others have more subtle, but equally effective, restrictions. The vacancy rate for units with more than one bedroom is significantly below that for efficiency and one bedroom units. The difficulty faced by single-parent families in finding decent, affordable housing is illustrated by the fact, mentioned above, that the vast majority of such families selected for subsidies under the Section 8 Existing Housing Program are unable to find acceptable housing and must forego benefits.

The Federal Role

The federal government, in a variety of guises, has played a major role in providing housing over the past half century. The goal of federal housing policy was stated in the 1949 National Housing Act as "a decent home and a suitable living environment for every American family." A great deal of progress has been made toward that goal.

Federal housing assistance has taken three forms: direct assistance either in the form of grants or loans to suppliers of housing or in the form of income supplements to households, financial market activities, and tax incentives.

Direct assistance includes financing the construction and operation of public housing, providing mortgage interest subsidies to private developers (both nonprofit and for-profit), providing grants or low-rate loans through community development programs, and providing tenant subsidies to pay the difference between what tenants can afford and the market price of housing. These direct federal assistance programs are largely administered by local government agencies.

Financial market activities consist of providing guarantees against default on mortgage loans and of facilitating the secondary market in mortgages (i.e., the sale of mortgages by the original lenders to other investors). In a few programs, the federal government provides direct loans. In addition, federal regulation of financial institutions, especially Savings and Loan Associations, encourages housing investment.

Tax incentives are the least visible of the federal housing assistance programs, but with the cutback in direct assistance programs they have become the primary mechanism of housing assistance. Equity investors in rental housing—especially low-income housing—have been able to "shelter" income from other sources through accounting losses (which allow income to be deferred and taxed later, often at a lower rate). The net effect of these provisions has been to make the effective tax rate on rental housing investment negative. The after-tax rate of return is actually higher than the pretax rate of return in most cases. Tax reform would reduce or eliminate the opportunities for investors to shelter other income, thereby reducing the incentive to invest in rental housing and removing an indirect subsidy to tenants.

Another tax subsidy for housing comes from the provision that allows state and local agencies to issue tax-exempt bonds to finance rental housing where a share of the units are set aside for low- and moderate-income households. Such financing has accounted for a large share of rental production in recent years.

Tax reform would substantially reduce the assistance to low-income housing through the tax system. The division of federal assistance into direct assistance, financial activities, and tax incentives is somewhat arbitrary. Some programs have elements of more than one type. Most subsidized low-income housing developments receive all three types of assistance.

Direct Federal Assistance

Unlike most poverty programs, housing assistance is not an "entitlement," provided to all eligible people who apply for it. There are long waiting lists. As of 1985, an estimated 22.5% of eligible very low-income renter households were receiving direct federal housing assistance.[8]

New budget authority for housing programs has been cut sharply since the 1978 peak. Authority for rental assistance fell from $31.5 billion in 1978 to $8.7 billion in 1983, but the number of assisted households and the value of federal outlays have continued to increase.

Budget authority represents incremental assistance and provides for outlays in future years, so in the short term the reduction in new authority does not mean a reduction in the number of people receiving benefits. Moreover, because of administrative and construction lags, much of the assistance authorized during the Carter Administration did not translate into actual outlays until recently.

The earliest direct federal assistance was the federal subsidy of public housing built and operated by local government agencies. In the 1960s, this shifted to subsidies of private construction where the private developers agreed to reserve the units for occupancy by low-income households. More recently, there was a shift toward directly subsidizing tenants in existing housing, rather than using the subsidy partially or entirely to underwrite increases in supply.

Tenant subsidies usually consist of a payment by the federal government equal to the difference between the rent and 30% of the tenant's income. Such subsidies are thus income supplements. In some cases, particularly under the Section 8 New Construction and Rehabilitation programs, the subsidies were nominally income subsidies for the tenants, but as a production incentive, developers were promised a supply of subsidized tenants paying generous rents, so that the effect was a supply subsidy.

The Reagan administration has advocated focusing almost entirely on tenant subsidies through "vouchers" to be used in existing housing and has advocated eliminating most construction subsidies and other supply-oriented programs.

With only a fraction of eligible low-income people provided assistance, it is important to consider the impact of the assistance on nonbeneficiaries. Where the assistance is in the form of voucher-type tenant subsidies and there is no parallel effort to increase the supply, voucher beneficiaries are able to outbid nonbeneficiaries for the available supply. On the other hand, where the assistance is production oriented, the total supply is expanded and even those people who do not occupy the subsidized units may benefit.

Except perhaps for the public housing program, federal housing programs have generally not been targeted to the neediest people. This is partly explained by the fact that, until recently, federal subsidies consisted mainly of new construction, and equity questions arise when the government provides housing to the poorest people that is newer and probably better than the housing that is affordable to the taxpaying working poor. There has also been an aversion among both housing providers and public officials to creating "instant ghettos" consisting solely of very low-income people, rather than a mixture of people at different income levels. In addition, since the amount of the subsidy is based on the difference between the rent and a percentage of the tenant's income, the subsidy costs are much greater for tenants with very low incomes.

Recently, eligibility for most direct assistance programs has been restricted to households below 50% of local area median family income. Even with these tighter restrictions, more than one-fourth of all U.S. households are still eligible under the income standard.

One of the reasons why targeting assistance to the very poorest has been expensive and politically inexpedient, and one of the reasons why the expense of entitlement programs has been considered unaffordable by government budgeteers, has been the insistence that housing provided by the government meet certain quality standards. While public and subsidized housing is hardly luxurious, those standards often go beyond fundamental health and safety considerations and reflect middle-class concepts of what is necessary in a housing unit.

The federal direct housing assistance programs, with their nonentitlement character and interminable waiting lists, are not oriented to the acute difficulties of the homeless. Some local housing authorities have arrangements to allow homeless families to jump to the head of the waiting list, but that is not established federal policy.

Local Government Role

Local governments have not contributed much of their own funds to providing housing (as opposed to emergency shelter). They have played an important role, however, in administering federally funded programs and in regulating building and land use.

With the cutback in new federal housing assistance, a few states and localities have begun to take a more active role in providing housing. However, most of these activities have been small in scale and have not been oriented toward housing very low-income people.

The local role in regulating land use, construction, and the operation of private housing markets has probably, on balance, been inimical rather than conducive to the production and retention of low-income housing. Exclusionary zoning (such as requirements that lots be larger than necessary) and other controls tend to raise the cost of housing and direct new construction toward the high end of the market. Overly strict building codes have inhibited the construction and rehabilitation of low-income housing. Housing codes have encouraged abandonment. While these codes ostensibly protect poor people, they effectively rank homelessness as preferable to substandard housing.

Rent control is another form of local regulation that is ostensibly beneficial but that ultimately contributes to homelessness. Existing tenants benefit at the expense of prospective tenants. Maintenance is discouraged and abandonment or conversion to owner-occupancy is encouraged. Even where rent control ordinances contain special incentives for new construction or rehabilitation, the presence or even the mere possibility of rent control has a pervasive chilling effect on new investment.

All this is not to suggest that a laissez-faire approach to regulation will increase the supply of low-income housing. The free market will not automatically address the needs of the poor. Local regulatory power can be used to retain and augment the low-income housing supply by, for example, protecting tenants in condominium conversions or other changes in use that might lead to displacement or by allowing higher densities in developments that include low-income housing. Height restrictions, in addition to whatever aesthetic value they may have, discourage the demolition of existing housing to build office towers. Few communities have placed a high priority on low-income housing in making regulatory decisions.

NOTES

1. U.S. Bureau of the Census, *Current Housing Reports: Housing Vacancies, Fourth Quarter 1985* (Series H-111) (Washington, DC: Government Printing Office).
2. Cynthia B. Green, *Housing Single, Low-Income Individuals* (New York: Setting Municipal Priorities, n.d.).
3. The homeless are, by definition, not "households."
4. U.S. Bureau of the Census, Annual Housing Survey, 1983 and 1974. Data for 1974 adjusted to 1983 dollars using implicit deflator for personal consumption from the National Income and Product Accounts.
5. For example, see John B. Lansing et al., *New Homes and Poor People: A Study of Chains of Moves* (Ann Arbor, MI: Survey Research Center, 1969).
6. National Association of Home Builders, *Low- and Moderate Income Housing: Progress, Problems, and Prospects* (Washington: NAHB, 1986), pp. 19-20.
7. *Report of the President's Commission on Housing* (Washington, DC: Government Printing Office, 1982).
8. National Association of Home Builders, *Low- and Moderate Income Housing,* p. 12.