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Low-Income Housing: Another Crisis Looming?

By Madison Gray / New York

Another housing crisis may be looming even as the mortgage meltdown continues and as Americans who once dreamed of home ownership see their properties foreclosed. The Housing Act of 1937, imposed in the wake of the Great Depression, and amended a number of times in the 1970s, is reaching a crossroads — and close to five million Americans who depend on subsidized public housing may soon have to figure out where and how they are going to live.

That's because under the provisions of Section 8 of the historic law a significant change will be under way in the next few years. As a result, building owners who participate in the program — receiving subsidies from the Department of Housing and Urban Development in exchange for taking in lower-income renters — will be able to opt out of those contracts. And many are thinking of doing just that. America's two largest cities, New York and Los Angeles, will be severely affected as will many smaller communities.

According to the Department of Housing and Urban Development, as many as 13,000 Section 8 contracts will expire by 2013, meaning 800,000 privately owned buildings could potentially be put up for sale or have the rents on their apartments raised to full market rates. Michael Bodaken, executive director of the National Housing Trust says about 1.5 million apartments housing between three and five million people will be affected. "Generally it's bad for cities to the extent that they lose the needed mixed income and affordable housing resource that is difficult to replace," says Bodaken, whose non-profit group advocates for people who live in subsidized homes.

Qualified tenants (typically ranging from individuals who make $12,500 a year to families of eight who make $22,500 annually) pay only 30% of their monthly adjusted income toward rent. The government makes up the difference to the participating landlords. Many building owners, however, have been suffering from what critics call "HUD fatigue" — frustration with dealing with government bureaucracy when it comes to getting the government to fork over the subsidies. Dean Chaussee, who has owned and managed properties in suburban Seattle through his Westwood Management since 1975, is waiting to opt out of his Section 8 contract when it expires because of what he says is unfair treatment from HUD. "We sign a contract to provide housing for people who otherwise wouldn't be housed by the private sector," he says. "HUD's job is to pay us for doing it, but they are consistently late on their payments." Costs and maintenance increases, furthermore, are not being met by HUD's formula, which Chaussee says is way behind market rate. He is now involved in a lawsuit against the agency. Chausee says he believes as more Section 8 contracts expire, more property owners will opt out of the program. "I know attorneys who are advising their clients to file their opt-out paperwork so they have that option."

Community activists say a mass opt-out by landlords would leave many poor people with only the alternative of receiving HUD vouchers to help pay their rents. While the voucher system has advantages, the current wait to qualify for it is already extremely long. And while renters can try to use the vouchers to pay for the housing they currently occupy, landlords are not required to accept them.

Larry Gross, executive director of the Los Angeles-based Coalition for Economic Survival, says as many as 12,000 units in the city will have subsidy contracts expire by 2013, most within the Section 8 program. "This is a tidal wave of disaster headed our way, unless we take emergency action," says Gross. "Most of these buildings are in areas that have gentrified over the years. [The landlords] see the dollar signs and think they can get more money."

Cities like Los Angeles and New York face the biggest problems because they have more people living under subsidy of some type, including those provided by their states. According to HUD, New York City has 124,000 project-based units, the most in the nation — and the Section 8 deadlines are compounded by the fact that the New York State-sponsored Mitchell-Lama initiative is expiring as well. A total of 40,000 Mitchell-Lama units are vulnerable to buyout under the program, meaning owners can raise the cost of occupied housing to market rate.

Amy Chan, a low-income housing activist in New York, has been struggling to help residents of subsidized buildings in New York, but says it is an uphill battle in a city where market rates are far above what HUD would provide a landlord or property developer. "What happens is that some buildings go straight to market rate and tenants must negotiate some alternative to the increase," she says. "Sometimes there are vouchers that are issued to help, but that isn't true for all cases."

Despite stereotypes of poor families living in unkempt tenements, Chan says, threats to subsidized housing affect largely middle- and working-class residents. Says Chan: "In a worse-case scenario, owners [would] buy out all the Mitchell Lama [New York State's housing subsidy] program buildings; they go straight to market rate and no government agency would regulate the buildings, and people might not get Section 8 vouchers, so the question becomes whether it can sustain working and middle class people."

Some owners still believe they can profit by remaining in the subsidized housing game. Mark Carbone is the head of the division of New York-based Related Properties that deals with affordable housing. He says his company is well-financed enough to weather the current housing bust and continue to offer low-cost dwellings. "When we've had the opportunity to opt out, we've chosen to stay in," says Carbone, whose company has holdings in several states. "It doesn't mean we've forfeited a great deal of profit." He says with a strong cash flow, there is no need for Related to go out and raise money the way smaller firms might.

Yet if enough landlords opt out, the challenges will be forbidding — and not just for the poor renters who will need government help to find places to live. Building owners hope to attract wealthier tenants to fill the vacancies. But there just might not be enough of these to go around. Says Howard Husock, vice president of policy research at the Manhattan Institute, a conservative New York-based think tank: "If you look at the location of many of the buildings that are discussed, there is not an unlimited supply of investment bankers who are going to move into lower-income areas. That's why the government must figure out how they will help these buildings."