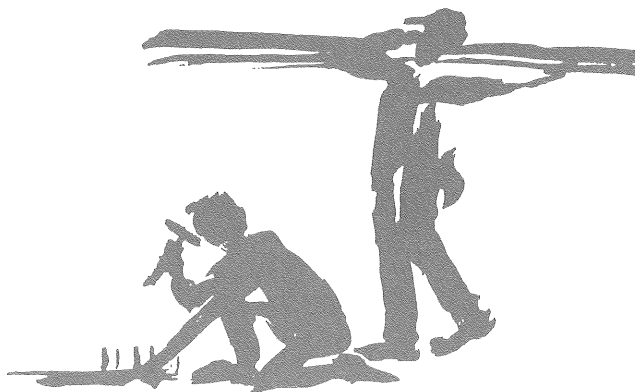
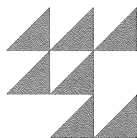


A New Foundation for Regional Housing Policy



by
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State of the Region address

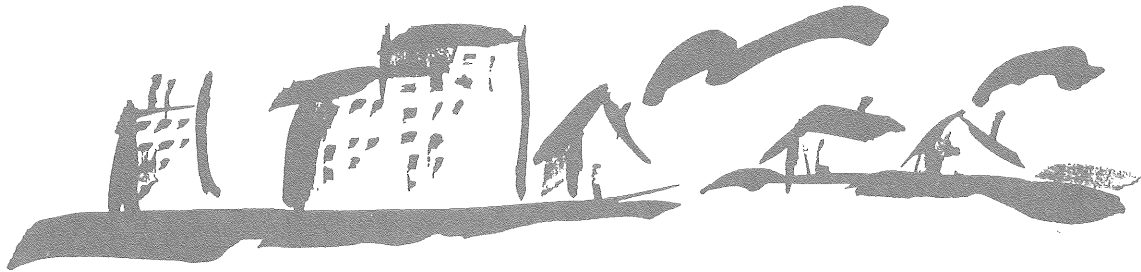


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Introduction

“Housing: Rebuilding Our Vision for the '90s” was the topic of the Metropolitan Council’s annual State of the Region event, held March 7, 1990. Opened by U.S. Secretary of Housing and Urban Development Jack Kemp, the program then featured major proposals in a speech by Council Chair Steve Keefe. His talk was followed by a reactor panel discussing the housing problem and Keefe’s proposed solutions. This booklet contains Keefe’s complete speech.



I served as chair of the board of the Minneapolis Community Development Agency for five years from 1980-1985. During that time, I was quite frustrated at the difficulty and expense in meeting housing needs in the Twin Cities and how often our agency's priorities conflicted with each other. Although we were trying to provide low-income housing, we were also charged with eliminating blight and protecting neighborhoods so that the quality of housing for people of all incomes would remain high. Frequently, our efforts to remove blight conflicted with our efforts to provide low-income housing.

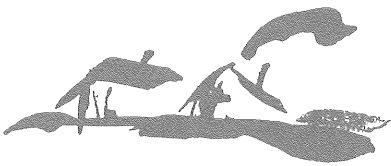
Frankly, the reason there is deteriorated housing is that there is a market for it. When you tear down housing because it's blighted, you remove some of the limited supply low-income people have to choose from. I can remember projects proposed to us for tax-exempt financing on the grounds that they had 20 percent low- or moderate-income units that would have destroyed many more low-income units, with even cheaper rents, than they would have provided. Of course, those units were in tough shape and very unpopular with their neighbors—but they were the best some people could afford..

Demographics Will Drive Change

Now we are entering a period when profound changes in the housing market are beginning to occur because of the aging of not only the baby-boom generation, but also the baby-bust generation—the much smaller generation that follows the baby boom. We saw how this small generation knocked the bottom out of the market for public schools in the '70s and caused the closing of schools all over the state. We have seen how the movement of the baby-bust generation into their early twenties has led to record vacancy rates in the apartment market. We know that in the next 20 years the baby-bust generation will move into the 25-to-34-year-old age bracket, which

provides so much of the market for modestly priced starter houses. As a result, that age group will decline by as much as 22 percent.

This has powerful and frightening implications for communities throughout the Twin Cities. Neighborhood preservation is no longer just an issue for center cities. Modestly priced and sized houses exist in neighborhoods throughout the fully developed suburbs. In fact, there's practically no community in the Twin Cities that doesn't have at least some of this older housing that will be in excess supply unless we do something about it.



This doesn't mean that the bottom is going to drop out of the housing market—quite the contrary. Certain other demographic groups, the move-up group between the ages of 35 and 49, and the empty-nester group over the age of 50, are growing quite rapidly and will create a demand for certain kinds of housing. Modest starter houses are not only occupied by people in the 25-to-34-year-old group. But the 25-to-34-year-old group provides a substantial part of the market for these homes when they do turn over. When an elderly couple, for example, decides to sell their modest, older house, they are likely to find that there are more houses on the market to be sold than there are buyers looking for them.

Hundreds of thousands of Twin Cities families have a substantial part of their net worth invested in these buildings. If they begin to lose value, there could be a powerful impact on the well-being of a large portion of our population. We saw how the bottom dropped out of the market for newsprint when the supply exceeded the demand by only five or ten percent. What's going to happen when the supply of modestly priced single-family houses exceeds the demand by more than 20 percent?

The aging of the baby-bust generation is likely to have a similar powerful impact on the job market. As the baby-bust generation moved into its early twenties, we've seen a growing shortage of entry-level workers in the Twin Cities Metropolitan Area. If the economy remains strong, that situation can only get more serious. Businesses, searching for entry-level workers to sup-

port their growth, will find fewer and fewer in the traditional demographics of kids coming out of school.

In the '70s and early '80s, when unemployment was a much more serious problem nationwide, job training programs for the poor were severely handicapped by the shortage of job opportunities for those who received the training and graduated from the programs. Now, with the danger of a growing shortage of people with the specialized skills that our businesses need to grow and compete in a world market, the opportunity for providing a piece of the "American dream" to the growing number of poor people is better than it ever has been. At the same time, if we can help these citizens to support themselves better, we can help to provide an expanded market for the modestly priced and sized housing that's going to be in excess supply.

In a sense, the situation calls for us to think about the poor differently. I think we tend to think of people in two classes—those who are dependent on society and those who contribute to society. Actually, the distinction is not so clear. None of us in this room consider ourselves dependent on society but, if we were left in the forest naked, we would have a very difficult time getting along. We're dependent upon society for many things that make our livelihood possible, but we don't think of ourselves as dependent because we give back to society. We do constructive work and we pay taxes and we contribute to charities.

The same is true of the poor and the frail. For example, think about an elderly citizen too frail to get along without support. If that person can be provided with home care services, he or she can be supported by society at a



lower cost than in a nursing home. This not only reduces public costs, it increases the payback on that investment. The person who remains in the community is paying property and sales taxes, may be providing babysitting assistance to the family next door with a sick child, may be contributing to the food shelf at Christmas, may be volunteering for charitable efforts, and so on.

In my opinion, that sort of thinking has not been applied adequately to the money we contribute to providing housing subsidies to people. For the most part, we tend to think of these subsidies as support for dependents. You get a place in the public housing project and you stay there as long as your income doesn't exceed the eligibility limits. We need to think more about housing subsidies as an investment, not only in housing stock but also in the people who live in that housing. Our housing subsidies ought to be designed to complement and support the efforts to help poor people to become more self-sufficient and to be able to return more to society in a whole variety of ways.

We need to rethink our housing policies and design them to take advantage of the market trends that open up new opportunities to provide low-cost housing and improve the return on that investment. At the same time, we ought to try to reduce the painful effects of these trends on the owners of modest-cost housing and the neighborhoods in which they can be found. I see five problems which, although in some ways separate, are also interrelated in very important ways.

- An impending excess in the supply of modest-sized and priced single-family housing.
- The persistent shortage of affordable housing for poor people, particularly housing large enough to accommodate families.
- The continued and growing concentration of the poor in a limited number of older neighborhoods, primarily in Minneapolis and St. Paul.
- Families that might benefit from home ownership, but are not able to afford it (as U.S. Secretary Jack Kemp has said).
- Inadequate integration of housing subsidies for poor people into strategies that help them become more self-sufficient and better able to contribute to society.

Regional Housing Strategy Needed

There are several reasons we need a regional strategy to attack these problems.

First, the most logical strategies that cities should pursue not only aren't going to solve the problems on a regional basis, they could even make them worse.

For example, the logical strategy for a city when vacancies start to increase and neighborhoods become threatened by blight is to increase the efforts to improve those neighborhoods and to invest in the existing housing stock. That may work when a neighborhood is suffering in comparison with other neighborhoods and just needs some help to be competitive. But, when the problem is a drop in demand of nearly a quarter, vacancies will exist no matter how hard all the cities try to market their neighborhoods.

To oversimplify the problem for a minute, imagine what happens in a situation where we have 10,000 houses on the market and only 8,000 buyers. Each seller, finding difficulty attracting a buyer, is going to do various things—lower the price, improve the appearance, etc. However, no matter how hard they try, 2,000 of those sellers will not find buyers. Furthermore, the difficulty in finding buyers will depress the prices for the 8,000 sellers that do, since the buyers have a choice.

Right now, what the cities usually do when a house becomes vacant and deteriorated—because it's not competitive in the market—is to either rehabilitate it or tear it down and replace it with another modest-sized single-family house. That doesn't really solve the vacancy problem. That house may become occupied because it is newer or more attractive. But, if you

don't decrease the total number of 10,000, the vacancy will pop up somewhere else in a house that's less attractive, possibly in another city.

We could, on the other hand, develop constructive ways to use those vacancies, partly to meet our low-income housing needs and partly to get rid of the obsolete housing. That would help keep the market strong by keeping supply and demand in greater balance. This is not only important to the neighborhoods; it is critically important to the middle-income people who own these houses and have a very substantial part of their savings invested in them.

Second, as was said so eloquently by John Borchert in the first forum on the Council's housing prototypes study, a substantial part of this problem is essentially a solid waste problem that falls disproportionately on older cities.

Housing is built mostly for middle-class and upper-middle-class people. As it ages it becomes more accessible to lower-income people. However, it eventually reaches the point where it can't find a market anywhere. At that point it becomes obsolete and must be cleared. The cost of clearance is substantial and is borne most heavily by cities with older neighborhoods that require clearance.

We haven't had much experience with large clearance programs since the urban renewal programs of the '60s and early '70s. Partly that's because those programs got a bad name as a result of the insensitive way they dealt with some communities. But part of it is because

we haven't needed to clear housing units very much in the last 10 or 15 years. The very rapid rate that households formed in the Twin Cities as the baby boomers started their families escalated the demand for modest-cost starter housing so that we had to use every available housing unit. However, that rapid household growth is coming to an end. Household formation in the 1990s is expected to be less than half of what it was in the 1980s, and less than half that much again in the first decade of the 21st century.

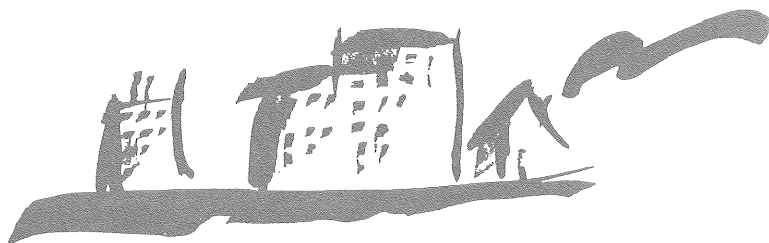
Of course no one, including the Metro Council or the central cities, wants to choose to abandon any neighborhood or piece of a neighborhood. But if we don't manage to remove some of the obsolete and deteriorated housing stock that's not finding markets, the vacancies could spread throughout the Twin Cities. We need to concentrate our acquisitions in areas where substantial parcels of land can be assembled that will be adequate to support significant redevelopment. If we don't, I think we could see the neighborhoods of the Twin Cities, center city and suburb alike, bleeding from a thousand tiny cuts of vacancies, foreclosed properties, and houses that stay on the market for months—or even years—because the sellers substantially outnumber the buyers for that particular sort of property.

Third, the tendency of poor people to concentrate in the few affordable neighborhoods they can find creates very serious burdens for the cities where those concentrations exist.

In the past these concentrations have been almost entirely in Minneapolis and St. Paul.

Although the center cities have suffered substantially because of the increased demands on services created by their large poor populations, they are also large and relatively diversified. They have a substantial tax base in their big downtowns and substantial neighborhoods of upper-middle-class housing that provide a reliable and stable source of revenues.

The first-ring suburbs—cities like Richfield, West St. Paul and Roseville—are, for the most part, smaller cities with a less diversified housing stock. Many of them have a less diversified tax base, too. Although the fiscal disparities program helps them to a certain extent, fiscal disparities is only a sharing of commercial/industrial property tax base. It doesn't share the high-priced residential property tax base that probably offers the highest cost benefit to a city in terms of revenues compared to demand for services.



If the poor concentrate in a few smaller first-ring suburbs, because that's where they find the lowest-priced housing, that concentration of poor people will have a tendency to spread as lower rents result in less maintenance and as home ownership rates drop. We may find ourselves with several first-ring suburbs faced with concentrations of the poor far beyond what they can manage with their limited resources. We are already approaching concentrations of elderly people in a number of first-ring suburbs of 25 percent, which is far higher than the overall percentages in the center cities because of their size and diversity.

And fourth, these problems affect all of us one way or another. Even the sale of a relatively expensive house generally depends on the sale of the buyer's house to someone who's selling his house to someone who's selling her house, and so on.

This chain eventually depends on the sale of a modest-priced single-family house. If we don't do something about this problem, it is going to affect the entire housing market and the equity and savings of the majority of middle-class Twin Citians, even those who live in communities of mostly newer housing.

We have not traditionally dealt very effectively with our whole housing problem. It is extraordinarily expensive. Although the federal Section 8 and voucher-type rental housing subsidies are among the most useful sources of support for poor families, they continue to be available to only about a third of the eligible people. According to a recent Council survey, 99 percent of the families paying over 30 percent of their income in rent have incomes under \$16,000 and over half the families with incomes under \$8,000 are paying more than 50 percent. In the process of trying to help these people, and at the same time eliminate blight, we have torn down much deteriorated housing to build subsidized housing for the poor, but only the poor who are lucky enough to qualify. The two-thirds who

are stuck on endless waiting lists not only don't get the substantial subsidies involved in government housing programs, but we have removed much of the housing stock that was affordable to them and substantially reduced their choice.

If we are to make limited resources stretch to provide a comprehensive solution to this kind of problem, we must manage our resources very wisely. I think that means operating carefully on the margins with the shallowest possible subsidies to help people do a little better and to take advantage of existing resources in the form of underutilized housing stock before it has a chance to deteriorate into blight.



Regional Strategy Has Five Parts

To do this I would suggest a five-part regional strategy:

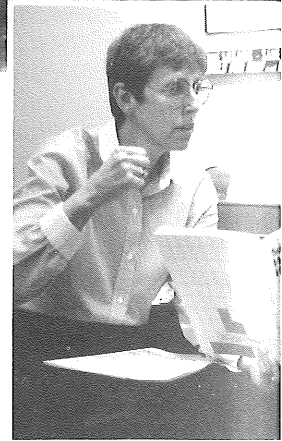
First, we ought to take advantage of the surplus of modest-cost single-family houses at presumably more affordable prices to increase the availability of home-ownership opportunities to lower-income people. By doing so, we would increase the market for those houses.

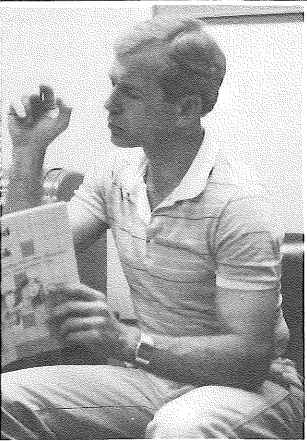
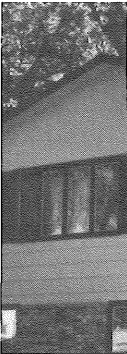
We have a number of excellent programs already that provide various subsidies for mortgages to first-home buyers. We ought to target those mortgages to existing housing so that they don't add to the glut of modestly priced single-family houses and so that they take the greatest advantage of an existing resource to make such opportunities affordable.

There are several ways to do this. We could simply require that the mortgage be for existing houses, as State Representative Connie Morrison would for Minnesota Housing Finance Agency mortgages in her bill currently pending before the House. Or we could tighten the limits on the price of houses so that only reasonably priced existing housing will qualify. That would have the further advantage of ensuring that only lower-income people who would not otherwise be able to purchase housing are eligible. It would also encourage recipients of these subsidized mortgages to obtain affordable housing at the lowest possible cost, thus stretching the impact of these mortgages on the housing market and on the low-income recipients.

Any decline in the housing market is not likely to apply uniformly to all modest-cost houses. Actually, its impact on the price of a particular house will depend on whether that house can find a buyer and what that buyer offers. It will vary quite a lot, depending on the size, location, condition, long-range prospects and even the level of anxiety of the seller. As a result, some houses that are quite attractive may not diminish in price at all. Others that are more marginally attractive with desperate sellers may sell for bargain prices, and make housing opportunities available to people with little public subsidy who would otherwise not be able to afford them. The Council staff estimates that a family of four at the top income limit for Section 8 rental subsidies could afford the mortgage on a \$50,000 house at a nine-percent interest rate.

Down-payment assistance has always been a problem. Secretary Kemp has suggested a program whereby families with the income, but not the cash, to make a down payment could be enrolled in a two- or three-year savings program to raise half the down payment. If they succeeded in completing the savings program they would have the amount of money matched by the government. We might add to that a training program in the maintenance and financial management responsibilities associated with home ownership. Many low-income families may not realize what they are getting into unless they are given some advance training, particularly if they come from families that have never owned.





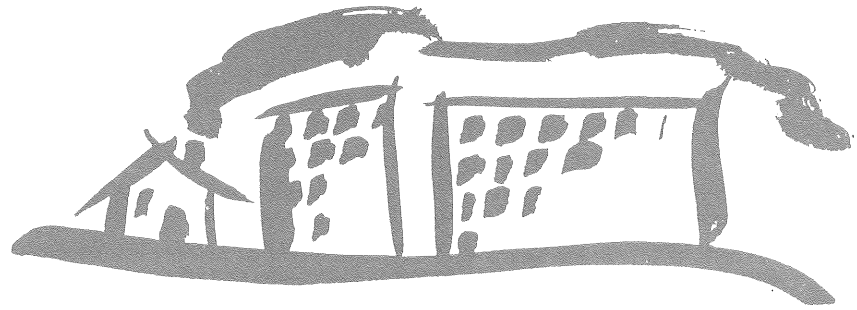
If we want to reduce the concentration of poor people in certain neighborhoods, we ought to make special efforts to inform them about housing opportunities in neighborhoods other than their own. In the past, low-income people have concentrated in certain neighborhoods because those were the only ones they could afford. With these changes in the market, affordable housing may exist in a number of communities in the Twin Cities looking for buyers. Maybe we ought to work together with realtors and the multiple listing service to provide information about bargain housing opportunities throughout the Metropolitan Area to low-income people who qualify for subsidized mortgages.

The Council might be able to assist by providing information about the availability of public services, public transportation and job locations. We ought also to make this information available to suburban employers searching for entry-level workers, to use as part of their recruitment process. As it becomes more and more difficult to find entry-level workers, suburban employers may find it useful to show job candidates how they might live closer to their new jobs, saving commuting time and money, and, incidentally, reducing the stress on regional infrastructure.

The second part of the strategy is to try to increase the supply of affordable rental housing, particularly for families. We can do this by developing ways to divert some of the modest-priced single-family housing to well-managed rental uses and, at the same time, improve the market for this modest-cost housing.

Although vacancy rates in rental housing are still high, that applies mainly to the more expensive units. There is still a serious shortage of units in the lower-priced and larger-size categories. But managing rental housing is a tough job. A lot of homeowners who have difficulty selling their house may assume this is just a short-term fluctuation and that they should hold onto it, rent it awhile and, in the meantime, move into the new, more expensive dream house. If this happens, we may find a number of inexperienced landlords with single properties and the maintenance and code enforcement problems that those can engender.

I think we need to try to persuade professional management firms, possibly nonprofits or foundations, to get into the business of owning and managing detached single-family rental property for low-income people. To encourage them to do this, we could make a number of subsidies available.



We at the Metro HRA might dedicate Section 8 or voucher certificates to programs that promise to obtain a number of modest, detached single-family housing units, maintain them well in diverse locations throughout the Twin Cities with good access to public transportation and services, and rent them at affordable rates to low-income renters. We probably should ask the legislature to treat these properties as homesteads for property-tax purposes.

Third, we need to encourage substantially more private reinvestment in existing neighborhoods.

Jim Solem of the Minnesota Housing Finance Agency has pointed out clearly that the growth of the suburbs depended heavily on a whole range of decisions to invest in mortgages for new housing. These decisions were driven by a perception that such housing was a stable asset increasing in value because of the virtually assured growth of the housing market. We need to encourage the same kind of investment in the renewal and rehabilitation of existing housing, if we are to prevent unnecessary suburban fringe sprawl, with its attendant public costs, at the expense of growing vacancies in the developed areas. We have to try to create an atmosphere where adding to an existing house is an attractive economic alternative for middle-income families to purchasing a brand new house in the fringes.

To do this, we need to find some way to make substantial funds available for rehabilitation mortgages at comparable interest rates and terms, say 15 to 20



years. Maybe we should ask our friends at the federal Department of Housing and Urban Development (HUD) to develop FHA insurance specifically for this type of mortgage.

Or it might be necessary for us to use regional funds to develop some sort of a mortgage guarantee fund. We don't want to go too far in this area because we don't want to encourage loans to houses that cannot support the investment. But we must share at least some of the risk to compensate for the impacts of the changing market if we want to attract private capital to our existing neighborhoods. Maybe we ought to reconsider the old idea of a property tax increase moratorium for major rehabilitation of an existing housing unit. We could also look at things like local zoning restrictions so that older houses on smaller lots can have the double garages or attached family rooms or extra bedrooms that their owners want and can afford.

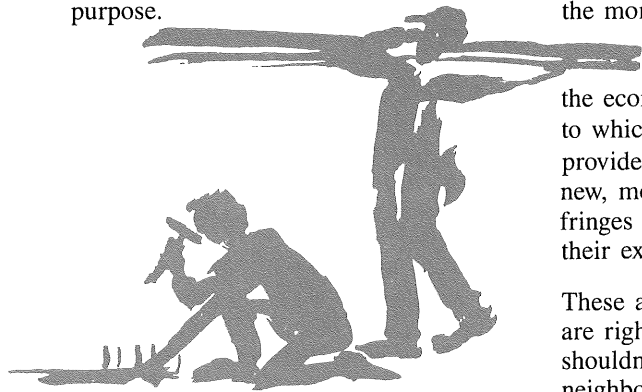
We must help communities provide what is needed to keep aging neighborhoods strong and make them an attractive place for reinvestment. The Council is currently conducting a study of factors that make neighborhoods viable—provision of public services, local commercial development, quality of housing stock, security and so on—to determine which are most important to strong neighborhoods. If we want individual homeowners to invest in their houses, they must be assured that the quality of the neighborhood as a whole is up to the standard that will ensure that the house will repay the investment when it's sold. That may mean more aggressive code-enforcement efforts. Minneapolis and St. Paul have worked at this for years with the Department of Housing and Urban Development, Minnesota Housing Finance Agency and Minneapolis-St. Paul Family Housing Fund, and have a number of successful models.

The most successful programs in the center cities have involved a combination of public and private efforts—private efforts to rehabilitate good housing units, and public efforts to enforce tough code standards, clear unsalvageable units and replace them with more attractive development. You can't rehab a house to above the level of the neighborhood and expect to get your investment back. However, the city and the private property owners working together can raise not only the value of a particular house but the level of a neighborhood together.

Preventing Abandonment is Key

The fourth, and perhaps most sensitive, part of the strategy is next. We need to provide assistance to cities to prevent the abandonment of housing, and the blight associated with it, by converting housing in danger of abandonment to productive uses, and to assemble and clear land for significant redevelopment projects.

I sincerely believe, having looked at the studies we've done of the demographics, and having discussed this extensively over the last two years with housing experts throughout the Twin Cities, that substantial pieces of neighborhoods in the Twin Cities are not going to survive these market changes. There are some places where houses, because of their size, condition and location—perhaps their proximity to industrial facilities or airports or freeways, or because of the spread of blight and crime near them—will not be able to compete in this market. They will not find a buyer at any price. Some of these houses may not be in the best places for people to live if they have a choice, and the land would be better used for some other purpose.

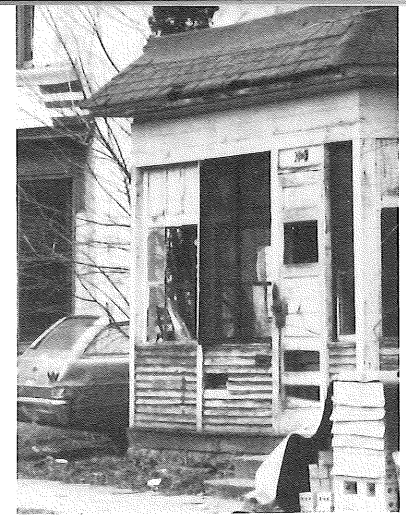


I think we in the government will have to clear that housing. In doing so, we can make land available that will be attractive for relatively large and dense redevelopment projects. This encourages new development in the fully developed areas, where the highway and sewer infrastructure is in and paid for, and where it can contribute to the strength and tax base of the older cities that are struggling with these problems.

However, I may be wrong. The housing market changes I've been talking about today are based on forecasts, and forecasts can be wrong. In fact, they often are, because people have a way of changing their behavior to meet *their* needs, not necessarily adhering to those implicit in some forecaster's assumptions. But in the next two decades, the reality is that the huge baby boom will be moving into middle age. The very small baby-bust generation will follow it into the entry-level housing market—but it will not come close to filling the void created by the boomers. It would take unprecedented in-migration to significantly alter this trend. That seems all the more unlikely because this is a

national, not just a local, trend: Even more unpredictable is the economy. We don't know the extent to which the economy is going to provide people the resources to buy new, more expensive houses out on the fringes and take a loss on the sale of their existing housing.

These are circumstances where people are right to say that government shouldn't be moving in and "redlining" neighborhoods and taking houses. There



is some reason to believe that the urban renewal programs of the late '60s and early '70s actually cleared more housing than they should have and contributed very substantially to the shortage of affordable units that we're experiencing today. So how does one provide assistance for what needs to be done for the region as a whole—removing an excess supply of obsolete housing stock that will affect not only itself, but also will cause blight in surrounding neighborhoods and depress the prices of housing in neighborhoods even miles distant?

I would like to propose we devise a substantial regional funding initiative to provide support to cities that have well-worked-out plans, consistent with regional policies, to deal with housing problems in their cities. One of the best plans of this sort that I've seen is the one done by Brooklyn Center. If any of you haven't read it, you ought to. It's interesting because it really does think about the city's housing stock as a product that appeals to a market. It starts you thinking about what market your product appeals to and how to enhance its value to that market. From there it's only a short hop to the



question of which markets are increasing and which are declining, and what part of the city's housing stock is dedicated to declining markets and what land use needs are not being met.

Minneapolis, I know, has a traditional shortage of land for light industrial uses to create jobs. The western suburbs might need more major parks. Richfield complains it doesn't have enough commercial/industrial tax base to keep itself diversified. The older baby boomers in the move-up housing market, as well as the empty nesters, are rapidly growing demographic groups with rapidly growing housing needs. Detailed city planning can identify the strengths and weaknesses in the city's housing stock. They can tell where the housing is in excess supply, where it's in short supply and what the city needs in the way of land use that it does not already have.

Then we ought to make regional subsidies available to developers to purchase housing at willing-seller prices from property owners who are not finding a market for their housing. The developers would have to meet certain conditions, however. Their project would have to be consistent with the city's housing plan and include maximum utilization of the housing to meet regional housing needs while the land is

being assembled. In other words, the existing homes could be used for market-rate rentals as long as possible, then for emergency housing when the rental market won't provide tenants. Ultimately, they could be assembled into significant-size parcels of land for redevelopment to purposes consistent with the city's housing plans. In addition to making a market for property owners unable to sell their property and, therefore, potentially in a position where they may be forced to abandon it, we ought to provide residents of those housing units with priority eligibility for our other housing subsidies. These are mortgage assistance for homeowners, and Section 8 or voucher assistance for renters in residence at the time the land is identified for assembly so they really do have a choice.

The plans ought to utilize the usual city financing tools, tax increment financing, community development block grants, and so on. But the regional subsidy ought to go further to make it possible to prevent abandonment of the housing and use it as housing while it still has some value and utility, while the land is being assembled for redevelopment. Right now, when a property owner finds that the value of the property is lower than the mortgage amount, he or

she may be forced to let it go into foreclosure, at which time it may sit vacant for over a year. By the time that year is up, if the house had any value, it doesn't anymore and its blighting effect on the neighborhood in the meantime is devastating.

In a way, frankly, this process happens naturally through normal market forces now, but it's very painful. It results in the loss of savings for property owners, blight upon the community and the premature loss of valuable housing resources because of the process of mortgage foreclosure and condemnation. Furthermore, public costs for assembling land for these purposes are frequently very high, because they are based on condemnation awards, not on willing sellers at bargain prices who haven't been able to find a market somewhere else. Without a program like this, willing sellers would be in a position where they wouldn't be able to get any money out of their investment and might, frankly, have difficulty finding other housing opportunities elsewhere with the loss of their equity.

I believe there will be houses, blocks, maybe even significant pieces of neighborhoods that are beyond saving. Even with substantial public investment, these properties will not find buyers in

a market where they have a wide range of choice in other neighborhoods. Our current programs tend to focus on providing the biggest public resources to where the need is greatest. If we put those public resources into these neighborhoods in the traditional ways—into buildings for which the market is disappearing—the resources will be wasted. We will be better off if we can invest those public resources in places where the housing is still in demand. That is where we will get the greatest return in the protection of neighborhoods and the preservation of existing housing stock. Where the market is disappearing, it will be better to use our resources to rededicate land use.

But who's to make that decision? I promise you, no politician in this state, not even an appointed official like the chair of the Metropolitan Council, wants to have the responsibility for making those decisions, and we shouldn't. History books are full of mistakes the government has made in well-intentioned public programs for urban renewal.

The solution, it seems to me, is to let the residents, the property owners, the neighborhoods and the cities together make these decisions based on the extent to which they are willing to invest their own resources. I would suggest that cities develop partnerships with neighborhoods that are prepared and able to invest substantial money in their existing housing units. Partnerships could include code enforcement and the clearing of some blighted buildings where that's an accomplishable task. Where that cannot be done, we should provide a market of last resort for property owners who find



that their housing units will no longer command the price that justifies additional investment. We should help those people to be rid of their investment without the blight of abandoned buildings or mortgage foreclosures and the loss of savings that accompanies that. Then we can take advantage of the remaining sound buildings to meet our most emergency housing needs for housing homeless families, for transition housing, housing for people on Section 8 waiting lists paying more than 50 percent of their income for rent.

In short, we can use the property for whatever regional priorities we think are most important but that we are unable to meet with our existing programs. I said earlier that only about a third of the people who qualify for rental subsidies are actually receiving those subsidies. The other two-thirds, a very substantial portion of them, are in very serious straits. We can use these resources to help meet their needs.

Some will say that this can't work, that neighborhoods won't actively choose to put any significant part of their housing stock into clearance and redevelopment programs. Not only can it be done, it *is* being done. In Richfield, the residents of New Ford Town, a housing development built in the 1920s on the east side of Cedar Avenue right near Minneapolis-St. Paul International Airport, have become distressed by the uncertainty hanging over their neighborhood as a result of plans for the expansion of the airport. Furthermore, increasing airplane noise has raised residents' concern about the suitability of that neighborhood for continued residential use. Many of the neighbors have actually petitioned the city to redevelop



the area for commercial/industrial purposes in order to make an attractive market for their houses. That way, they can get the value out of their homes and be able to move somewhere else.

This program is not uncontroversial. But the city is doing a very conscientious job of thinking about what land use it needs to further diversify its tax base and prepare it for the 21st century. It's also thinking about what land use

would be most appropriate near the airport. The kind of commercial/industrial development that's under consideration would provide jobs for Richfield residents. It would be much more compatible with airplane noise, not to mention the benefit of easy access to the huge market the airport represents. As I said, this program is not uncontroversial. But I have received a petition from the residents of Rich Acres, another residential enclave on the east

side of Cedar Avenue in Richfield, asking for the same kind of program for their housing.

The problem for both these neighborhoods is that Richfield has limited resources to make this sort of thing happen. They are blessed with land that will be very attractive to commercial/ industrial developers wanting to be close to the airport. They could make this program work much better and much more expeditiously if there were regional funds to assist the land assembly process for larger types of development. As it is now, larger developers will have to negotiate on a case-by-case basis with the individual homeowners, and that can discourage developers hoping to be able to move expeditiously with reasonably rapid land assembly. On the other hand, if the land assembly is to be done on a voluntary, willing-seller basis, and the costs, as a result, kept down, it's going to take time and that will require subsidies. In the meantime, these are sound, attractive housing units. They would make a very attractive alternative to the choices now available to the poorest families in the Twin Cities not currently qualifying for subsidies, in a high-quality suburban neighborhood with yards and safe streets for their children.

The question is, how do we fund all these programs? We're talking about the possibility of loan-guarantee funds and grants to cities to help with abandonment prevention and the utilization of housing. I have two major things to suggest. First, it seems to me that since all of these efforts are directed, among other things, at protecting the market for existing housing, that the logical

way to fund them is with a tax on the sale of housing. In a buyers' market, housing, particularly modest-priced housing, will go at the buyer's price and the seller will wind up carrying the brunt of the tax. Since the seller reaps most of the benefit of efforts to prevent the decline in value of a substantial proportion of the housing in the region, it makes sense for the seller to pay, in effect, a user fee. Right now the housing transfer taxes, both deed and mortgage tax, raise about \$54 million statewide. I'm proposing a substantial increase in that tax to make funds for the programs I have described. Just how much will depend on how we develop the details of the programs.

Second, the Council is now looking at a regional infrastructure fund. The idea came up, actually, from original suggestions of the Regional Transit Board of using a regional sales tax as a way of funding light rail transit. The Council's long-term policy position has always been that general purpose taxes should be used for general purposes, not dedicated to specific purposes like light rail transit. We have been examining a number of proposals for things that could be included in a regional infrastructure tax. Examples are land acquisition for a potential new airport site; regional parks programs that have been unable to find state funding in recent years; and perhaps support for the highway right-of-way acquisition loan fund.

This proposal is controversial, although there is no question that the Metro Area has extraordinary infrastructure needs associated with the extraordinary creation of wealth that occurs in big cities. It might be that we need some way of paying for infrastructure by ourselves. However, hardly anyone would suggest that the highway or the sewer system or the airport is the toughest or most serious problem in the Twin Cities. It seems to me only appropriate that any infrastructure fund look at housing. It is probably the single most important part of the infrastructure—both to the social fabric of the community and to the economic health of its residents. I'm suggesting the Council consider, as we talk about a regional infrastructure fund, that housing ought to take a prominent position.

Of course, there are other sources of revenue. The federal government is still making substantial housing subsidies, and the state and local governments spend substantial amounts of money from various sources. But all of it is a drop in the bucket if we don't use it wisely. The value of the Twin Cities housing stock is in billions of dollars. If we want to do more than nice demonstration projects, we have to have programs that take advantage of macroeconomic forces, and work on the edges of those forces, to guide and direct them to solve our most difficult problems and soften the damaging effects on the people they hurt.

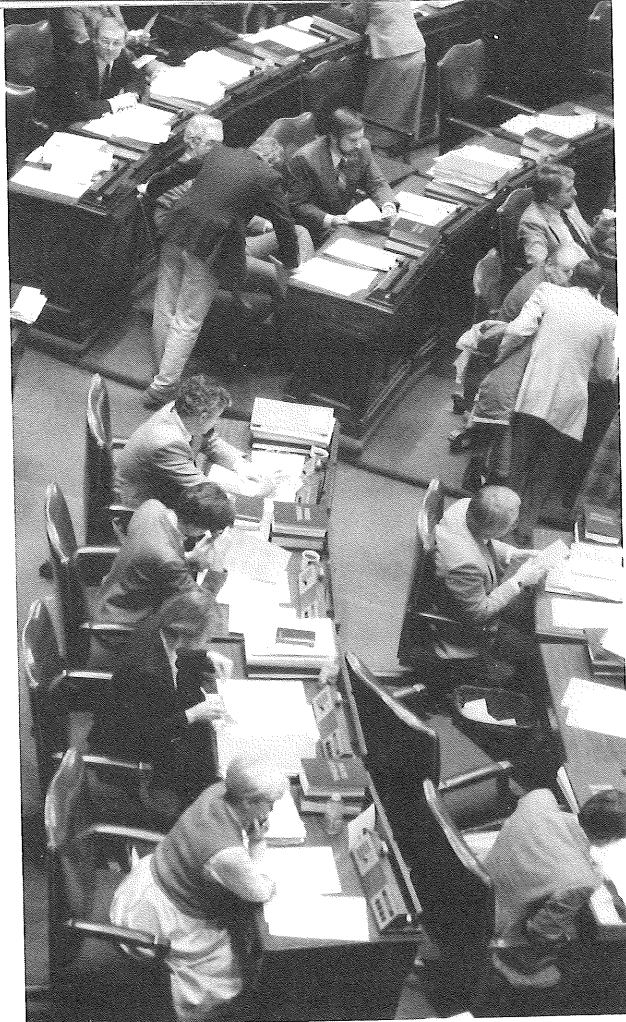


Create a Ladder of Assistance

Finally, part five of the strategy: A regional housing policy ought to integrate the provision of housing subsidies for low-income people with efforts to help those people become more economically independent and self-sufficient.

This is not something we've done well in the past in a large way, but it's something that's being pursued aggressively in a number of programs right now. Governor Perpich's STRIDE Program went to great pains to try to obtain guaranteed housing assistance for people in job training and self-sufficiency programs, something they were unable to do. The East Metro Women's Consortium is pursuing a plan to use Metro HRA Section 8 certificates to guarantee rental assistance for the construction of low-income housing at the Lakewood Community College Campus, in combination with child care availability and job training. The Bloomington HRA and Cornerstone Advocacy Services use FHA-foreclosed houses to provide transitional housing for abused spouses in job training programs. Then, after three years, they will provide mortgage assistance to help the client become a homeowner at the completion of the job training program. The Passage Community in Minneapolis combines Section 8 certificates or vouchers with job training, counseling and education.

In a sense, the steps I've outlined above are intended to create a ladder of assistance, providing not huge amounts of assistance to any individual recipient but a little bit of help to everybody.



The aim is to lead from heavy levels of dependence all the way up to self-sufficiency without any sudden loss of assistance. The transitional housing provided by the abandonment prevention program can lead to Section 8 and voucher certificates, which ought to be much more widely available. Programs like the St. Paul Home Program ought to help rental housing subsidy recipients afford to move into home ownership opportunities.

And we can go further. Although the Twin Cities has a better record of

providing low-income and subsidized housing opportunities in the suburbs than almost any other community, some of the toughest kinds of housing opportunities are still overwhelmingly provided by the oldest neighborhoods in the center cities. If we're going to provide regional subsidies to cities to help with their housing projects, we ought to make it a condition that they contribute to solving our toughest housing problems—housing for the homeless, transitional housing, group homes and so on.

Most people see the Council's main job as planning infrastructure. However, the Metro Futures Task Force pointed out something that Council members have been aware of for some time. That is that the toughest problems in the region are not the congestion on the freeways. They are poverty, drugs, inadequate education—the social problems that face our communities. Although the Council has played a role in a wide range of public issue areas, we have not done as much as many Council members wish. But it seems to me that we do have something to offer in the area of social policy through our housing planning.

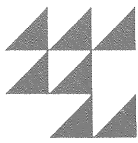
I am recommending to the Council that we add to our work program for 1991 a policy study on how housing subsidies interact with programs to fight poverty and how they can be better designed to be of the most help for those programs. We do a great deal about analyzing the most effective ways to invest in our physical infrastructure. This offers us a way to apply those same sorts of analysis to our investment in our most valuable resource, the people of the region.

We live in a time of increasing world competition, where our businesses need the best possible workforce in order to be able to survive. We can't afford to leave out a potentially productive part of our society from either the benefits that accrue from a place in the community or the opportunity to contribute to the strength of that community.

A real regional consensus policy doesn't come out of the head of one person, not even a person like me who's picked the brains of hundreds of smart people over the last couple of years about this problem. That's why I'm asking the people in this room to join us at the Council in helping to fashion this jumble of ideas into a real regional housing policy. We need a policy that we can work on together and that can guide our efforts to provide the best

possible return to the region and its people. I would like to ask those of you here today who are involved in the day-to-day implementation of housing policy and who know so much about it—cities and counties, builders and realtors, state agencies and neighborhood groups—to join us. Together we can forge a housing policy for the region that takes advantage of the opportunities of the '90s and helps protect us all from the dangers. Some people, when they see the waves of change, are afraid they'll be washed under. I want to invite you all to a surfing party.





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State of the Region address



by
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Chair, Metropolitan Council

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