Policy Analysis

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Executive Summary

Despite having spent billions of dollars on housing, New York City has more homeless people, more tenants in subsidized quarters, and more dilapidated and abandoned housing than any other city in the country. It spends 10 times more on housing than the total spent by the 10 next largest cities in America, yet its housing problems put it in a league with many cities in the Third World.

The so-called housing crisis has been grist for the mill of endless articles, academic reports, and congressional hearings. Unfortunately, many people fail to realize that the "crisis" is mainly self-inflicted. New York, with its welter of building codes, rent regulations, and taxation policies, has put major roadblocks in the way of maintaining or building low-cost housing.

The plight of the homeless has been decried and depicted graphically on television, in magazines, and in the daily press, yet the media have ignored government's role in creating the problem. Instead, with much hand wringing, a parade of advocates for the homeless has claimed that low-cost housing would put an end to the misery. Why is a miserly city refusing to meet the need?

Funding and Its Discontents

The reality is different. Homelessness involves more than a search for shelter. New York has been far from miserly. In 1988 the state and the city spent approximately $2 billion to help the poor and the homeless. Yet such substantial outlays have failed to serve all who want help. In 1984 fewer than half of all families with poverty-level incomes reported receiving public assistance, the major source of rental subsidies, and had to find shelter on their own.(1)

Despite the skyrocketing cost of assistance, advocates for the homeless have constantly renewed their demands for more housing. In 1986, plagued by the endless complaints that New York City was not doing "enough" and that the shortage of low-income housing was undermining all efforts to help the poor and the homeless, former mayor Edward I. Koch announced a 10-year capital improvement plan for permanent housing. The cost was projected at $4.2 billion to build or rehabilitate 252,000 units for the homeless and for people with low and moderate incomes. By the time of the first update, in 1988, the cost had grown to $5.1 billion. If that rate of increase is maintained, the plan could eventually cost the city close to $10 billion.

Undaunted by such vast current or projected expenditures, coalitions of housing providers and advocates for the homeless have joined forces to urge that the federal government reenter the low-income housing market by establishing a new and sweeping entitlement. Thousands of new units would be built. The costs, running into the billions, are airily dismissed. The inefficiencies and ineffectiveness of such a program are conveniently overlooked.

Is such intervention really necessary? Is more largess, federal, state, and local, the answer? Before committing billions more to additional housing projects or engaging in yet another round of policy debate, we should explore the causes and the consequences of the current situation. The evidence suggests that New York has painted itself into a corner, drawing ever tighter the already constricting net of regulations that throttle supply and thereby injure the poor and the homeless whom they are supposedly protecting.

The Shelter Complex

The most visible sign of the city's problems is the burgeoning shelter industry. Its worst expression is the welfare hotel. In the early 1980s, unable to find enough rental units to house the poor and the homeless, the city expanded its use of hotels as "temporary" shelters. Crowded, squalid, and expensive, they became in many instances the modern equivalent of the black hole of Calcutta. In 1987, at the peak of the crisis, 62 hotels housed over 5,000 people.(2)

In Rachel and Her Children, Jonathan Kozol documents the human costs.(3) He portrays vividly the plight of mothers forced to choose between food and diapers, the crowding of adults and children into a single small room, and the irreparable damage caused by delays in education. The fiscal costs have been equally appalling. In January 1988 the maximum shelter allowance for a family of four on Aid to Families with Dependent Children (AFDC) in New York was $312 a month.(4) Under federal law, however, the city is authorized to pay as much as $1,000 a month to house public assistance families temporarily in hotels or apartments.(5) "Temporarily" means for no more than four months, a limit often ignored. At an average cost per family of $100 a day for shelter and services, multiplication results in a possible total of $500,000 a day at the peak of the crisis.

Goaded into action by reports of foul conditions, the city has been making strenuous efforts to withdraw from the welfare hotel business. In fact, by the time Kozol's book reached the stores, the city had already begun to close those hotels. The Martinique is no more; the Holland is being renovated. As of June 1989 only 24 hotels remained, and they were being shut down at an average rate of one a week. By June 1990 the welfare hotels are slated to be a thing of the past.

They are being replaced by a vastly expanded and more costly system of shelters.(6) Intake facilities, now known as Tier I's are being upgraded, and the number of long-term transitional shelters, called Tier II's, is being increased. In 1989 an additional 450 units, designed to serve from 5 to 230 families, were to have been added to the 1,600 units already in existence. By June 1990, in addition to the permanent housing being created under the city's 10-year plan, there are to be 3,265 units of transitional housing. Given almost infinitely elastic demand for what is perceived as a "free" good, that response is sure to be considered inadequate. There will be renewed appeals for more transitional shelter.

Bricks and mortar, moreover, are far from enough. Services must also be supplied. The average family of 3.4, whether housed in a welfare hotel or a transitional shelter, is costing the city $58 a day in rent alone. The cost of social services brings the daily bill to $100. (The bill keeps rising. A recent report states: "Depending on the shelter, the cost ranges from $105 to $170 per family per day.") (7) The city provides assistance in rehousing, medical treatment, special educational programs, day care, and job counseling at all Tier shelters; the Tier I's supply those services around the clock.

The numbers served are impressive.(8) During 1988 and the first quarter of 1989 the temporary housing system provided assistance to an average of 28 incoming families a day, a number that had been fairly constant for a year. (The average number per day includes families returning to the shelter system after an absence of at least 30 days as well as families entering for the first time.) Without apparent cause, in the first four months of fiscal 1990 (July 1989 through October 1989) the number rose to 40 a day. From January 1988 through December 1988 an average of 3,850 families was served by the system each month. On March 17, 1988, during a period of cold weather, the number of families in temporary housing surged to a peak of 5,245. Until the full 3,265 units of transitional housing become available, it is clear that the city will need the hotels as back-up, whatever the administrative deadline for their closing.

Despite the delays caused by endless paperwork and the difficulty of securing trained staff, the services that have been established and expanded in hotels and transitional shelters over the past 10 years have evidently proved attractive. The average length of stay in the system of a homeless family in the early 1970s, when there were fewer services, was less than two months. As more services have been provided, the average length of stay has increased. It peaked systemwide at 13.6 months in January 1986. It has fallen in the past year to 9.1 months as more resources have been devoted to moving people into long-term housing. Those who spend longest in the welfare system are hardest to shift from transitional to permanent shelter. As a consequence, special groups of social workers are now employed to persuade families to move. Although those families are given the first pick of units, they are still reluctant to leave. Long-term clients of the system, they have been in the womb so long that the outside world seems unsupportive and threatening.

The Costs

How has that expanding operation been financed? New York State and City spend approximately $160 million a month on public assistance grants.(9) Of that amount 20 percent, or $32 million, goes for Home Relief, a program that is comparable to General Assistance but has no federal funds. Eighty percent goes for AFDC, which is matched dollar for dollar by federal funds. The federal government contributes approximately 50 percent; the state and the city each fund 25 percent. That works out to a monthly cost of $64 million to the federal government and $32 million each to the state and the city. The federal government funnels additional millions to New York City for shelter and services through the programs of the Stewart B. McKinney Homeless Assistance Act.

Housing Subsidies

The system of housing allowances established by AFDC has become the cornerstone of the city's housing assistance program. Although many states have flat grants, which are considered easier to administer, New York's cities and counties must calculate separately allowances for housing, energy, and food stamps. Shelter allowances vary by county. New York City's $312 a month for shelter for a family of four is one of the highest.

Housing Production

The extravagant costs of housing assistance provided by the city pale in significance when compared with the costs of housing production. The 10-year, $5.1 billion plan to build or renovate 252,000 apartments between 1989 and 1998 includes the creation of 15,000 units for the homeless. At a cost of $800 million, that amounts to establishing a medium- sized town, each of whose houses costs over $50,000, or more than many wage-earning families can afford. The number of units in itself raises questions. If the city is serving an average of 3,850 families per month, the planned construction will be inadequate to meet the demand, and the city will forever be spending its resources playing "catch up" with the homeless population.

To make matters worse, a program touted as providing "affordable" housing represents a healthy subsidy for the middle class. Nearly one-quarter of the dollars and over one-quarter of the units will go to people with moderate incomes of 60 to 100 percent of the median for New York City, or between $19,000 and $32,000 a year. Almost 15 percent will go to middle-income families earning between 100 and 165 percent of the median, or $32,000 to $53,000 a year.(10) The median income of all U.S. households in 1987 was $30,850. According to the city's standard, nearly one-half of all families across the country would qualify for housing subsidies.

The supposed shortage of housing, decried by advocacy groups and showcased by the media, has, of course, prompted the plan. On the surface, the figures might seem to justify rushing to the barricades. The citywide vacancy rate hovers around 2 percent. There is a waiting list of 200,000 for the 175,000 units of public housing.(11) Closer examination, however, sheds a different light on the situation. The city is racing to close the welfare hotels and relieve crowding in transitional shelters, but abandoned buildings remain a frequent sight in the outer boroughs, and the South Bronx is still a wasteland. Although housing quality nationwide has been rising steadily for years, complaints about maintenance deluge the city's agencies, and stories about rats and cracking plaster appear frequently in the papers. The circumstances would seem to be ideal for builders, but no William Levitt has come forward. Instead, the city is mounting an expensive rescue mission to salvage a wreck of its own creation.

The Market

Why is the city becoming the last of the big-time landlords? Why should it be in the property business at all? Its own policies have all but destroyed the private housing industry. Regulated rents, a morass of building requirements administered by a labyrinthine construct of departments and agencies, and a highly protectionist building industry have steadily raised costs and limited access to all but a lucky few. At war with its landlords and rigidly committed to its restrictions, the city has become the "houser" of last resort. If the city's program continues, "by 1996, New York City and its political affiliates will be landlords to one out of every 20 New Yorkers."(12)

Ironically, the massive program is bound to fail. Despite the vast sums expended, housing will continue to be scarce. Beggars will still stand on street corners. The shelter economy, termed by Kozol "an empire of poorhouses," will flourish.(13) Barring a major change in policy, the city will sink ever deeper into the hole it has dug for itself.

Rent Regulation

Why the wasteland? What factors are preventing an increase in the supply of low-income housing? The primary one is regulation. As William Tucker, long a student of the problem, notes, "Housing is actually one of the most highly regulated industries in the country,"(14) and the major impediment to housing is rent regulation. Nowhere are such regulations more deeply entrenched or their effects more visible than in New York City. Instituted in 1943, during World War II, to "protect" tenants from "gouging" by landlords when rental apartments were in short supply and, supposedly, to divert investment to war-related industries, rent control proved such a popular success that it could never be repealed.

The city did flirt with vacancy decontrol for five years. In 1969 the rapid rise in abandonment and foreclosure, coupled with studies showing that rents had lagged far behind operating costs, led to the passage of a rent stabilization law that established vacancy decontrol, allowed "stabilization" as a more moderate form of regulation, and provided for increases in the rents of controlled units. Claims that tenants were being harassed put an end to vacancy decontrol in 1974 with the passage of the Emergency Tenant Protection Act. (Ironically, the preambles to both acts claimed that the goal of public policy was to provide for a transition to free-market bargaining between tenant and landlord.) The effect of reinstituting regulations after five years of vacancy decontrol was devastating; the number of building permits for new private housing fell by one-third in the next five years.(15)

The Emergency Tenant Protection Act, which imposed rent stabilization retroactively on all apartments built between 1947 and 1974, also set the stage for continuing controls. Since 1974 virtually all builders have "voluntarily" agreed to stabilize rents on newly constructed units in exchange for higher initial rents and tax breaks.(16) When an existing rent-controlled unit falls vacant, it simply becomes rent stabilized. Rent controls are administered by the New York State Division of Housing and Community Renewal, which determines yearly rent increases for rent-controlled apartments according to the Maximum Base Rent system. The MBR, revised every two years, was intended to allow a return of 8.5 percent on a building's assessed value, but the law limits annual rent increases, which may not exceed the MBR, to 7.5 percent.(17) During periods of rapid inflation, such as the late 1970s and the early 1980s, owners quickly found that their rents no longer covered their operating costs.

Ten years ago several landlords challenged the law, claiming that the 7.5 percent limit amounted to a confiscation of property. Although real estate values had increased dramatically, their return had dropped to 1 or 2 percent, scarcely an "obscene" profit. The Supreme Court refused to hear the case, so the law stands.(18)

Stabilized rents are administered by the Rental Guidelines Board, an independent body appointed by the mayor. It is considered relatively flexible because it bases its annual guidelines on estimates of operating costs tied to a price index of goods and services used in building operations. However, the estimates are out of line with reality. From December 1986 to December 1987, with the Consumer Price Index showing inflation running at 4.4 percent, the board granted a 3 percent increase.(19) Whatever the relative "merits" of the two systems, their price fixing operates as a powerful disincentive to the private market.

The approximately 1.1 million units of rent-regulated housing in New York include roughly 170,000 that are controlled; the remainder are stabilized. Together those units constitute nearly 60 percent of the total rental market. Units whose rents are tied to federal programs, such as public housing or Mitchell-Lama, constitute another 12 percent. The small free market is composed mainly of units that have been decontrolled and of apartments in one-, two-, and three-family buildings that have never been subject to regulation. However, the rents of those free-market units are distorted by the larger number of rent-regulated apartments, which makes it difficult to estimate the true economic market for housing in the city.

The units are not distributed evenly across the boroughs. Manhattan, older and more densely populated, has 28.8 percent of the city's rental housing units but 74 percent of the rent-regulated apartments. At the other extreme, rural Staten Island has 2.3 percent of the rental stock but only 0.3 percent of the rent-regulated units.(20)

Who lives in rent-regulated units? Forty-two percent of all rent-regulated apartments are occupied by households with incomes greater than $20,000. Fourteen percent have tenants with household incomes above $40,000, and 6 percent of tenants have incomes above $50,000. In other words, rent regulation benefits many who could afford to pay market rents.(21) The roster of occupants of regulated apartments in New York reads like a roll call of the city's political and cultural elite. It includes former mayor Edward Koch; model and actress Lauren Hutton; James Levine, musical director of the Metropolitan Opera; and three members of the city council who represent Manhattan and, of course, support rent regulation. Rep. Theodore Weiss, long a champion of the poor and downtrodden, also enjoys a rent-regulated apartment.(22) As one critic noted, "The system has turned rental housing into a public utility for the rich and famous."(23)

In areas where rents are not regulated, there is an upward migration: As new apartments and houses become "used," they are vacated by their affluent occupants and acquired by those just below them on the housing ladder. Still older units are, in turn, vacated by those moving up, and the poorest people occupy the oldest and least desirable units. Rent regulation severely inhibits that filtering process. Tenants of regulated units opt to remain in them long after their incomes have risen, their families have grown, and, in many cases, they themselves have left town. Their subtenants, if any, are also affluent. The underground rental market operates through rumors, connections, and bribes.

There is a darker side to that exchange. Most tenants who become landlords, in upscale buildings at least, content themselves with making a profit by charging more rent than they are paying. In poor neighborhoods, however, the traffic in drugs has created a menacing black market in rent-regulated apartments. The principal city housing agencies, the New York City Housing Authority and Department of Housing Preservation and Development, spend considerable time and money identifying and evicting drug dealers in their subsidized properties. The city, however, is reluctant or unable to sweep out many of the dealers, so tenants continue to sublease units for which they are paying $250 or less a month to crack dealers for six times that amount. Other residents are terrorized and property deteriorates, as does the neighborhood.

While the affluent benefit, a market paralyzed by regulation is hurting those who are most vulnerable. According to the federal standard, which establishes 30 percent of monthly income for rent and utilities as reasonable, the rents paid by the poor and the very poor are too high. Ninety percent of all households with incomes under $10,000 who live in rent-stabilized apartments, the majority of the stock, spend at least 35 percent of their income on those essentials. A substantial number report spending half or more of their income for rent.(24)

Percentages, however, are misleading. It is a question not of high rents but of low income. "The poor pay less but it hurts them more," says one analyst.(25) A free market would offer the poor and the very poor lower-priced alternatives. Controls, however, have squeezed out private developers of low-cost housing and brought the filtering system to a virtual halt. As a result, poor tenants have nowhere else to go. If they lose their toehold in the system, there is only the shelter.

In sum, 40 years of rent regulation have helped to create the worst of worlds, a disastrous shortage of housing that benefits the affluent without providing low rents for the very poor. Except for luxury units, those renting for $1,000 or more per month, new investment in rental units by the private sector is negligible. Regulation has produced a shortage of low-cost housing and thereby exacerbated the plight of the poor and the homeless.

Evidence of the disastrous effects of regulation is mounting nationwide. A recent study of 50 major cities shows that rent regulation is a major factor associated with high rates of homelessness.(26) The chief symptom of the rent-regulation disease is a low vacancy rate. Cities with rent regulation and low vacancy rates, including Boston (2.6

percent), Washington, D.C. (2.0 percent), Los Angeles (2.2 percent), and San Francisco (1.6 percent), have experienced the most severe problems with the homeless. New York, with a vacancy rate of 2.2 percent and a long history of controls, has forged its own chain.

Instead of removing regulations, however, the city is battling to make them more restrictive. It is trying desperately to stem the rush to convert existing buildings to cooperatives, the major avenue of escape from the system for beleaguered property owners. Since 15 percent of the apartments in a building must be bought by current tenants and vacant apartments count toward that total, landlords frequently keep vacant units off the market to facilitate conversion, a procedure known as "warehousing." The vacant apartments can then be sold at market rates. A city in the grip of a housing shortage has between 5,500 and 35,000 vacant apartments kept off the market by rent regulation, depending on which advocacy group is counting.(27) Meanwhile New York is spending billions to rehabilitate its properties and still claims that it is unable to meet the needs of the poor and the homeless.

Budget Costs

The human costs of an absurd system have been amply recounted. It would be difficult to remain unmoved by descriptions of armories crammed with single men and families doubled up to keep friends and relatives from landing on the street. Less well known are the extensive fiscal opportunity costs. A recent study estimates that the overall dollar amount of benefit provided to rent-regulated tenants ranges from $365 million to $1.8 billion, with $875 million as the most reasonable estimate. ("Benefit" is defined as "the difference between the actual rent being paid and the rent a household would expect to pay consistent with their income level without rent regulation.")(28) Households with income greater than $40,000 receive 45 percent of the benefit of rent regulation, or close to $400 million a year. The largest share of the benefit of rent regulation accrues to higher-income tenants in Manhattan: although those tenants represent only 23 percent of the rent-regulated market, they receive approximately 38 percent of the windfall of $332 million annually.(29)

The effect of regulation on the city's tax revenues is equally impressive. If rent-regulated apartments whose tenants earn household incomes of over $20,000 a year were not regulated, the assessed value of rental property in New York City would jump by approximately $4.0 billion. The potential increase in annual city property tax revenue resulting from increased rents and assessments would be about $370 million.(30) With the increase in revenues that would be produced by deregulation, New York City could do a great deal more to help the very poor, ease the plight of the homeless, and provide additional services to the mentally ill and addicted who crowd its shelters. The city prefers to ask for additional handouts from the state and the federal government.

Needs and Subsidies

Those potential revenues are of particular interest when compared with the recommendations embodied in the report prepared for the Commission on the Year 2000. Its authors claim that "meeting the rental assistance needs of very low income renters . . . would probably cost between $300 and $400 million a year."(31) Rescinding rent regulation for those with annual incomes above $20,000 would produce that amount.

That alternative is not considered. Instead, to make up for "the shortage of decent housing units," the report calls for an increase in construction of 20,000 new units a year. The subsidies required would range "between $55 million and $563 million a year for each 15,000 units of low-income housing produced." That translates into a cost of between $3,667 and $37,533 a unit, a broad range that in itself calls into question the validity of the initial estimate. "Adding the rental assistance/shelter allowance revenue needs of around $350 million a year" to the foregoing subsidies "results in an aggregate net cost of closing the housing gap and eliminating the affordability problems of all New York City renters of between $400 million and $900 million a year. . . . This is, of course, over and above what is currently being spent for housing assistance."(32)

The sums already being spent are staggering. Furthermore, they are doing little to alleviate the housing problems of the poor and the very poor. Rather than focusing on cost-effectiveness and the counterproductive effects of New York's bureaucratic regulations, however, Felstein and Stegman decry federal cutbacks and offer ingenious suggestions for raising additional revenue. The city could, for example, "revise its zoning resolution to include low-income housing requirements." It should create a housing trust fund with "dedicated revenue sources, including revenue from an inclusionary housing program." Tax-increment financing and the use of interest on real estate sales escrow deposits and of public employee pension fund earnings to provide rehabilitation loans are also mentioned. The $10,000 cap on filing fees for real estate syndications could be eliminated. Tax-exempt bond financing has been made difficult by the Tax Reform Act of 1986. Undaunted, the authors have recourse to taxable housing bonds with higher interest rates.(33) In other words, the answer to the housing problem would be to constrain the building industry still further, increase regulations, and raise taxes.

Although the authors do favor streamlining the development process, they offer no blueprint for doing so. They note "how difficult it is for the public sector to overcome the obstacles of legalities, turf, and special interest groups."(34) Those obstacles hinder the private sector as well, but Felstein and Stegman are interested only in expanding the role of government, however inefficient it may be. Since it is politically easier to spend money, the report never addresses the root of the problem: overregulation.

The Landlord

The figure who is forgotten in the report is the owner. Contrary to popular belief, residential landlords in New York run small-scale operations. A study by Arthur D. Little, Inc., in 1985 found that

> 60 percent of the owners own only one building. Of the owners who bought a building in the late seventies and early eighties, 68 percent own only one building. In over 60 percent of the cases, the owners are making less than a quarter of their income from their rental investment--and not as a result of their great wealth. The majority of the owners had incomes between $10,000 and $40,000.(35)

Even less well known is that a majority of the landlords are immigrants. Over 50 percent were born outside the United States,(36) and 35 percent of owners who have bought property within the last five years are black, Hispanic, or Asian.(37) Because they are far from wealthy, they rely on "sweat equity" to keep going, cleaning the halls, taking out the garbage, and performing repairs themselves. Squeezed between the rising cost of operations and maintenance and the difficulty of obtaining rent relief, they are still reluctant to apply for increases. The Arthur D. Little study showed that only 20 percent had filed for additional rents.(38) Poorly educated--half of New York City's landlords never graduated from high school(39)--they cannot cope with the red tape and fear the administrators with college degrees.

Although landlords of modest income keep a substantial portion of the city's housing afloat, the bureaucracy treats them with open contempt. It sides aggressively with tenants, conniving at rent strikes, penalizing heavily minor infractions of the code, and sitting censoriously in judgment. "Everything my tenants know about dodging rent they learned from the Department of Housing Preservation and Development," said an owner. "They actually train tenants to destroy their landlords down there."(40)

Nowhere is that attitude better illustrated than in the tortuous legalities surrounding eviction. New York City has separate housing courts in all boroughs except Staten Island. The courts hear 100,000 to 200,000 cases annually, but evictions number approximately 22,000. The disparity between the number of hearings and the number of evictions gives credence to charges of bias. Housing court judges almost always rule in favor of the tenant. Said another owner, "Basically, the housing court judges don't believe in private ownership. . . . They rule against landlords whatever the circumstances."(41)

The services made available to tenants by the city support that claim. City staff members are "out stationed" in the housing courts to market or broker services to those who are contesting eviction, whether or not they are on welfare. Cards are given out; posters advertise the service. A few years ago the Human Resources Administration began funding legal counsel for tenants in housing court. The landlords have been left to shift for themselves.

The precarious finances induced by regulation and the city's support of nonpaying tenants have made it difficult for many landlords to repair their buildings. For their failings they are called "slumlords" and excoriated in the popular press. They fare no better at the hands of bureaucratic analysts. The report to the Commission on the Year 2000 states:

> In Fiscal Year 1985 city code inspectors carried out more than 381,000 housing inspections, resulting in more than 626,000 code violations. At the same time, 121,000 previously recorded violations were

corrected. . . . The net increase was over 500,000 violations in 1985 alone.(42)

That an abysmally low or negative rate of return might be responsible for that sorry state of affairs is never mentioned. In an unregulated housing market, landlords maintain their property for fear of losing their tenants. In a rent- regulated city, tenants, unable to find other accommodations at the same low price, stay in their units. As a result, landlords have few funds and little incentive to keep their property in good shape.

The many who try are often sabotaged by their tenants. Because a tenant can avoid paying rent on a unit considered substandard, a favorite technique is to cite the landlord for a violation of the code. A minor infringement, even a cracked switchplate, will suffice. Tenants have also been known to sabotage heating systems and hammer holes in the walls. An appointment is made for the repair. When the landlord or the repairman arrives, however, the tenant is absent or refuses to answer the doorbell. That ploy can be repeated almost indefinitely while the landlord, unable to collect, watches his rents decline. Rent strikes are another tactic employed against owners.

Felstein and Stegman fail to discuss the role of regulations in the creation of code violations. Instead, they link "a more workable system of rent regulations" to "intensified code enforcement activities" such as "cyclical inspections, creation of a special administrative unit to process housing code violations, city seizure of neglected properties, and other measures designed to encourage improved maintenance."(43)

"City seizure of neglected properties" is the key phrase. In the 1970s the city foreclosed, generally for nonpayment of taxes, at a truly staggering rate.(44) At the peak, 10,000 units were taken in foreclosure during one year. The rate has fallen each of the last four years and now stands at approximately 3,000 units a year. The most dilapidated buildings have already gone into foreclosure--or have burned or collapsed. The city has finally become ever so slightly more reluctant to shoulder the financial burden that foreclosure represents. In addition, the spectacular rise in real estate values, even in troubled neighborhoods, has led many owners to hang on tenaciously to debt-ridden and crumbling properties.

The city's holdings are impressive. As of February 1989 the city's in rem stock, that is, buildings acquired through foreclosure, totaled 8,173 buildings. In contrast, most major cities own fewer than 100 buildings at any given time and try to sell them to private owners as soon as possible. Only New York has stockpiled real estate. In 1986 it owned 9 percent of the city's housing stock "as a war chest for the city government's future housing programs."(45)

In February 1989, 3,824 of New York City's foreclosed properties were vacant; of the more than 100,000 units "in management," an estimated 51,000 were vacant apartments in vacant buildings. New York, however, was decrying the housing "shortage" and touting its efforts to rebuild. Having driven the previous landlords out of business with rent regulation and high taxes, the city is now renovating those buildings at taxpayers' expense.

The last straw in the sorry tale is the recent fight over commercial rent regulation. Not satisfied with wrecking New York's housing market through more than 40 years of rent regulation, advocates claimed that "the move would mean protection for thousands of small businesses."(46) Commercial landlords, in other words, would join residential landlords in subsidizing their tenants.

Reconstruction of Vacant Buildings

The city's 10-year plan calls for spending $2.4 billion of the $5.1 billion to renovate the entire inventory of structurally sound vacant buildings. In 1989 alone the city was to have begun moderate and complete rehabilitation of more than 27,000 units. Nearly 11,000 of those units were scheduled for "total gut rehabilitation" at a cost of up to $74,000 per unit. The cost for the nearly 17,000 units scheduled for moderate rehabilitation is relatively modest, ranging up to $30,000 each. The final price tag depends on such factors as the number of major appliances replaced.

Reconstruction is not only expensive but time consuming. It takes approximately one year after foreclosure for a building to become available for rehabilitation. Bringing the units up to standard requires an additional two and one-half years, more time than it takes to build a 50-story skyscraper. In total, three and one-half years elapse between foreclosure and the time property can be rented.

Most foreclosed buildings are sold to nonprofit organizations for token sums. In addition, loans are given to nonprofit community groups at below-market rates. Nonprofit developers also rehabilitate properties under the Section 8 program of the U.S. Department of Housing and Urban Development, which sets fair market rents and makes up the shortfall between those rents and 30 percent of the tenants' income. Political connections often guide the awards. Conspicuously lacking are private-sector development and the profit motive. In fact, many of the nonprofit developers are "neighborhood preservation companies" staffed almost entirely by full-time political activists.(47) Opposed to free enterprise, they see landlords as the incarnation of evil.

Rehabilitation of Occupied Buildings

Under the 10-year plan, all city-owned occupied buildings are slated for moderate rehabilitation. The cost? $1.3 billion. All operations are under the careful control of the city's bureaucracy. As of February 1989 the Department of Housing Preservation and Development managed nearly 55,000 units directly or indirectly. Staunchly pro-tenant, the agency is particularly interested in helping tenants to organize, rehabilitate, and eventually buy their buildings as limited-profit cooperatives. There are now over 7,000 units in the tenant co-op program. Community management organizations are also encouraged to manage buildings, supervise rehabilitation, and assist in creating tenant co-ops.

The emphasis throughout is on nonprofit groups and on special administrators appointed by the housing courts. HPD plays the role of sugar daddy when problems arise. "We also try to get loans from HPD," explained an administrator of the Tenant Interim Leasing Program. "We don't have to repay them. They become a lien against the building if the landlord ever wants to get it back."(48) Whatever the owner's wishes, the imposition of the debt is likely to compromise his ability to bail out his own property. The city, which pays no taxes and can float bonds, sloughs off the debts. The landlord has no such advantage.

New Construction

The amount of new construction in the city's program is modest, as is the cost, less than $1 billion. In 1989 housing starts totaled 2,000 units of low-rise, one- or two-family, owner-occupied housing. The cost of each unit was comparable to that of a full-scale rehabilitation. The city, which reconstructs in the most expensive manner, also builds expensively. The Wicks Law prohibits government from acting as its own general contractor and mandates that, in public construction, the work of each trade be separately bid. The result has been higher costs for new construction by government, whether directly or through turnkey projects, than for private construction for profit. (In a turnkey operation, site ownership is transferred to a developer and the completed project sold back to the Housing Authority.)(49) The Davis-Bacon Act, the federal law requiring that wages of construction workers on federally assisted projects be at least equal to "prevailing wages"--usually union rates--raises costs even further.

Vouchers

The extent of the city's anti-market bias can be seen clearly in its treatment of the voucher program. Issued by the U.S. Department of Housing and Urban Development, vouchers preserve mobility and freedom of choice for those in need of housing assistance. Vouchers are also cost-effective; a new public housing unit costs taxpayers $700 a month, whereas a voucher costs less than half that amount.(50) Rent regulation has impeded the use of vouchers in cities whose housing supply has been constricted by regulation, but New York worsened the problem by consciously setting up a roadblock:

> In 1987, city government officials refused to even distribute the vouchers because of ideological objections. HPD, which handles more than half the vouchers, refuses to distribute them to tenants in privately owned buildings. Instead, it has tried to steer all the Federal money into in rem buildings that are being rehabilitated by the city itself or by non-profit organizations.(51)

Unable to funnel the vouchers to the favored few, the city finally refused to distribute them at all and wangled agreement from HUD. Instead of condemning the bureaucratic stranglehold, the press and housing advocates condemned the vouchers.(52)

Codes and Construction

The building code is also part of the regulatory problem. New York City passed the Multiple Dwelling Law, essentially a building code, in 1929. Although it has been updated periodically, ease of implementation has never been the guiding principle. From 1965 to 1968 the city spent $1.5 million on a complete revision of the building code without making it more "user friendly."(53) The result is an unwieldy compilation covering many agencies, each of which has different code requirements. In other words, various parts of the same building are addressed by different rules and regulations administered by different agencies. A developer or builder must deal with multifarious requirements for HVA (heating, ventilation, air conditioning), plumbing, energy, handicapped access, electrical wiring and fixtures, fire prevention, and safety (egress, sprinklers, smoke alarms, windows, structural design).(54)

The developer must also comply with zoning requirements, which are generally designed to protect property values by excluding "undesirable" projects. The objections are legion. "The height limit has been exceeded," even though multistory units are more cost-effective and inhibit urban sprawl. "The project mixes business and residential uses," despite reduced travel time to a grocery store for residents and the advantage to owners of living close to their shops. The low-income units will house "unattractive" tenants. Property owners in New York as well as in the suburbs are adept at rationalizing their attempts to pull up the drawbridge and protect the value of their property. As a last resort, they can always file suit to block a proposed development. Whatever the result, it will prove expensive for all concerned.

The risk of suit and the cost of running the gauntlet of agencies--20 or more city and state agencies are involved in various aspects of housing--undoubtedly inhibit rehabilitation and construction in both the public and the private sector. They add significantly to the expense, and perhaps most important, they discourage innovative attempts by the private sector to meet the needs of low-income renters.(55)

Just how significant the cost may be is underlined by a recent study conducted in New Jersey. The Newark Star-Ledger found that "it is not the value of labor and building materials that are pushing the average price of homes beyond many, but the uncontrolled growth of a massive and costly system of regulation and bureaucracy, much of which has been found to be wasteful." As much as 35 percent of the cost of a new house in New Jersey, it estimated, was due to regulation.(56) Since New York's code is arguably even more Byzantine, its effect on costs is undoubtedly greater.

Single-room-occupancy hotels, one of the cheapest forms of housing, have been particularly hard hit by the restrictions. The number of such units in New York fell 89 percent between 1970 and 1983, from 127,000 to 14,000.(57) Although gentrification and the increasingly high cost of land in the inner city contributed to their demise, rigid zoning and equally rigid specifications (mandated square footage per room and requirements for individual kitchens and bathrooms of certain sizes and levels of amenity) played a major role. Bringing back SRO hotels will require flexibility in the code but could produce great benefits. San Diego, for example, opened its first new SRO hotel in 70 years, the Baltic Inn, in 1987. That project benefited not only from generous financing but from a decision to exempt SRO hotels from parking space requirements.(58) The occupants, after all, are unlikely to have cars.

That buildings should be safe and sanitary; resistant to fire, wind, and rain; and strong enough to withstand earthquakes goes without saying. The four major national building codes take such hazards into account. State and local codes modeled on the national codes tend to embroider on the basics. The rigidity of the codes, in New York and elsewhere, has further depressed supply in the low-income segment of the market, where housing is needed most, by raising the cost of construction and discouraging the use of innovative techniques. The continuing battle over plastic piping is but one example. Easier to install and cheaper than copper or cast-iron piping, plastic piping is also safer because it does not leach into the water supply. Its use, however, has been strongly opposed.

Essentially, the regulations of the housing code mandate that the contractor create "handicraft housing" with 19th-century technology. To complicate matters, the code is regarded as a sacred text by building inspectors, who generally consider change dangerous and would rather compromise the consumer's pocketbook than their careers. Builders, who know that the surest way to waste time and, therefore, money is to engage in an argument with a building inspector, accord it a respect that would have been envied by Hammurabi.

Other Cities

New York is no anomaly. The story repeats itself in other major cities with rent control; Washington, D.C., is the most egregious example. With a vacancy rate of approximately 2 percent, the nation's capital seems incapable of shutting down its welfare hotels.(59) In 1988, 1,230 families were living in motel shelters at an annual cost of $36,000 per family of four for shelter alone. Support programs were nonexistent.

Although motel shelters have cost the city $14.2 million since 1987, Washington, in contrast to New York, has simply allowed the situation to drift. As late as April 1989, it had no comprehensive plan for alternative housing. City administrators, under constant fire from the press, were making frantic attempts to locate alternative housing. The outlook was grim. The city's Tenant Assistance Program, which provides vouchers, was financially strapped; there was a long waiting list for often dilapidated public housing; and landlords were leery of accepting tenants whose previous address was a shelter. As in New York, shortages induced by regulations have made it possible for owners to pick and choose their tenants, and a cumbersome eviction process dictates caution.

Undaunted by his administration's failure to solve the problems of the homeless, Mayor Marion Barry compounded the problem in June 1989 by vowing to move at least 400 hospitalized mentally ill patients into community housing by the end of 1991.(60) Given bureaucratic ineptitude, continuing lack of coordination among agencies, community resistance, and financial problems, it is difficult to take the mayor seriously.

Although advocates and providers of housing generally cite "too little affordable housing" as the main cause of homelessness, the city has consistently failed to move forcefully against the drug traffic and vandalism that have turned many public housing units into empty shells. Even more important, it has blocked all attempts to increase the housing supply, often in the name of neighborhood preservation.

Like landlords in New York, owners in Washington are squeezed between increasing operating costs and controlled rents. In April 1988 a 4.7 percent increase in rents was scheduled; the previous year it had been 1.6 percent. Inflation in both 1987 and 1988 was 4.4 percent. As a result of those pressures, the supply of housing continues to shrink and rents continue to escalate. In March 1988 the median rent for all rental housing in the area was $630 a month.(61) Alarmed, the Metropolitan Washington Council of Governments asked for an increase of about 10 percent in the amount of federal housing subsidies. Taxpayers nationwide, it was assumed, should subsidize the residents of the district. Reducing or eliminating rent control was never even suggested.

Innovative Approaches

Technology that can be used to supply low-cost housing without recourse to federal subsidies is available. To use it effectively, however, the housing industry must rethink its reliance on the handicraft approach to construction. At the same time, local governments need to streamline the development process; they need to reevaluate building codes in terms of strict necessity and take an honest look at the effects of zoning requirements on costs.

All too often, innovative approaches are ignored in favor of the familiar battery of regulations. Factory-built housing has been a major casualty of such rigidity. Even Felstein and Stegman in "Toward the 21st Century" note its "economy and speed of construction" and claim that it "should have a major place in planning for new construction." They add: "There has been little use of manufactured housing in New York City, however, partially because of extremely rigorous local code standards, which out-of-state housing plants may not meet, and partially because of organized labor and political and bureaucratic stumbling blocks." Their basically protectionist solution is to develop "New York City housing manufacturing plants," which, they argue, "could have an extremely beneficial long-term economic impact, and offer more, not less, work to the affected trades."(62)

The last quotation illustrates the ongoing confusion about factory-built housing. First of all, modular housing is constructed according to state industrial and local building codes and can be used for commercial as well as residential purposes. Manufactured housing comes under federal jurisdiction, that of the U.S. Department of Housing and Urban Development, and its commercial use has been virtually prohibited.

Modular Housing

Modular housing consists of components that are built in factories and fastened together at the construction site.(63) Most units have two to four modules and, depending on the builder's order, appliances may or may not be included. Builders generally use modular components in subdivisions where quicker assembly gives them better control of costs and a potential edge on quality. An entirely stick-built unit may require 90 days to build, as opposed to 30 to 45 days for modular construction. The savings can, of course, be passed on to the consumer.

The industry has become increasingly upscale. It is very difficult to distinguish modular from stick-built homes: the same materials are used; the components are simply more completely assembled before they reach the site. Trade unions have often resisted such housing; they see it as a threat to skilled on-site construction workers. Moreover, the labor used to assemble modules in a factory may be union or nonunion, depending on the location of the plant. Consumers, too, resist the change. Home building is a local business, and buyers like to see carpenters hammering nails into "their" walls. Savings, however, can be great enough to induce many buyers to accept the new techniques. Modular low-cost developments have been built successfully, even in New York. Charlotte Gardens in the Bronx is an example.

Union and consumer resistance is only part of the problem. The average manufacturer of modular housing now does business in five states, but state codes usually have no reciprocity, so the most stringent requirements of each state must be met by the assembly line, whether or not there is a clear reason for them. Repetitive on-site plan reviews and local inspections add to the cost. If housing is ever to become more "affordable," the states will have to give up some "turf" and work seriously toward reciprocity.

Manufactured Housing

The really spectacular savings, however, come with manufactured housing.(64) Once known as "mobile homes," manufactured housing has moved very far from the trailer park at the edge of town, although zoning restrictions generally attempt to keep it there. Manufactured housing is defined as a three-dimensional residential structure built to a federal building standard administered by the U.S. Department of Housing and Urban Development. The entire house or a major section thereof (one-half, one-third, or one-quarter) is constructed on a chassis in the factory, then shipped to the building site. The chassis generally serves as a significant supporting structure, although it can be eliminated if the house is placed on an excavated foundation. Manufactured homes are single-story ranch houses, which are increasingly difficult to distinguish from their site-built counterparts. Far from resembling trailers, such structures are attractive, well-constructed dwellings.

They may be sightly, but are they safe? Performance standards regulating construction were established in 1974. The standards are based on the National Highway Traffic Safety Administration's requirements for cars, which also provided a model for enforcement of the construction standards. Manufactured housing is thus, in the words of one spokesman, "the most enforced housing in America." In addition to plan reviews, there is continuous on-line inspection by a HUD representative of at least one major system in each house, a procedure designed to prevent system failures. The mode of handling consumer complaints resembles that used by the automotive industry, including recalls and notification of owners about health and safety issues. The houses themselves carry lifetime warranties against life-threatening problems. Ironically, the guarantees designed to reassure the consumer have sometimes raised questions about safely.

The federal building standards are performance based. Municipal codes tend to be prescriptive, and "prescriptive codes have a life of their own." Often they mandate specific materials for specific purposes; hence the debate about plastic pipe and the general indifference to advances in technology. As is the case with modular housing, unions object not only to assembly on site but to sections built by nonunion workers in factories.

Although opposition has clouded the issue, the savings from manufactured housing are significant. In 1988 a single sectional house up to 80 feet long could be produced for an average price of $18,600 for 970 square feet, or $19.18 per square foot. A multisectional ranch house of 1,430 square feet could be constructed for $33,600, or $23.50 per square foot. In comparison, a stick-built house of similar size could easily cost $75 or more per square foot, or well over $100,000.

Some may object that factory-built housing is irrelevant in New York, where renovation is focused on high-rises and builders generally construct multistory buildings. True, technology once stood in the way of "building up," but those difficulties are now falling by the wayside. The technology that would permit two-story or higher structures is available, but HUD is dragging its heels on approving the designs. As a result, the manufactured-housing industry is effectively prohibited from building the multifamily residences that could provide low-cost housing for the very poor. It is against federal regulations, a stance given tacit approval by the stick-building sections of the housing industry.

Instead of examining the possible savings from innovations in technology and from deregulation, legislative analysts and housing advocates and providers simply continue to bewail the high cost of construction--about $200 per square foot in Manhattan and $100 in the other boroughs.(65) More subsidies and tighter controls, they claim, are the answer.

Solutions

Distrustful of the free market, both Washington and New York have made it virtually impossible for the private sector to meet their housing needs. A solution for all cities with regulated housing markets would begin with phasing out rent regulations. Since vacancy decontrol might lead to steep increases almost overnight, rents could be allowed to rise somewhat faster than the rate of inflation, perhaps 5 to 10 percent each year, until the market cleared. The current welfare system could provide adequately for those without any income at all and for those with special needs.

Accompanying the deregulation of rents should be a reform of the building code to reduce the costs of construction and to eliminate the need to build homes of Cadillac or Mercedes quality when Fords, Volkswagens, or even Hyundais could fill the need. In particular, New York City must repeal the Wicks Law. Zoning regulations should be revised to permit greater flexibility, such as an increased mix of residential and commercial uses, to bolster the economy of neighborhoods. For the owner of a small business, living over the store, now often prohibited, is a more effective subsidy than commercial rent control.

Technological advances, particularly factory-built housing, should be encouraged, and the federal government should eliminate its prohibition on the construction of multifamily structures by the manufactured-housing industry. It is hypocritical for legislators, advocates for the homeless, and the housing industry to bemoan the plight of the low-income buyer and tenant while permitting such restrictions to stand.

Finally and most important, the federal government should refuse to subsidize programs in cities with rent regulations. Early in 1988 the Reagan administration did propose cutting off federal housing aid to the more than 200 cities with such regulations. Howls of protest followed, and the administration quickly retreated. The present administration should return to the fight and be willing to stay the course. To attempt to rescue the District of Columbia from self-created problems is pointless. To underwrite the budget of New York City, one of the world's richest cities, is wasteful under the best of circumstances. In the present situation it constitutes an unthinking gesture of appeasement to political activists and bureaucrats. Until the barriers to a free housing market come down, the city should be forced to fend for itself.

Conclusion

The problems and costs detailed in the preceding pages, particularly those of New York City, reflect a market distorted by decades of regulation. To claim that all the problems would disappear instantly in a free market would be utopian. Nevertheless, an open market would lower the cost of housing and ultimately provide cheaper and better dwellings for the poor. Consequently, the pressures on New York City to provide more and better shelters and services would be reduced. Those capable of living on their own would move out, choosing between low-rent units constructed by the private sector and older apartments vacated by those who would move into more luxurious quarters once the inducement to stay put, which artificially depressed rents provide, was removed. In other words, the "trickle down" process would begin again to work, leading to better housing for all. The city's fiscal burden would be reduced, allowing a reduction in taxes or, at the very least, a more productive use of resources. Scaling back the vast army of regulators who staff the city's agencies would also be beneficial.

The current system has imposed staggering costs. The losses in tax revenue occasioned by the decay and abandonment of rental stock and by depressed assessment values are, by any standard, disastrous. Rent regulation and rigid building codes, a reluctance to experiment with new technology, and restrictive zoning regulations are powerful disincentives to the construction and renovation of low-cost housing. To bridge the gap, that is, to rehabilitate and replace lost units and to create new stock, the city has had recourse mainly to subsidies, paid for either directly through taxes levied on current property owners and renters or indirectly through bonds. State and federal contributions to New York City impose a burden on all U.S. taxpayers.

If the problem of adequate low-cost housing is to be solved, a radical approach is essential. The current situation is so inimical to freedom, and thus to economic prosperity for all, that one is tempted to say that the road to poverty is lined with shelters.

Footnotes

(1) Carol Felstein and Michael A. Stegman, "Toward the 21st Century: Housing in New York City, May 1987," prepared for the Commission on the Year 2000, n.d., mimeographed, p. v.

(2) Telephone conversation with Alberta Fuentes, mayor's coordinator for the homeless, New York City, June 12, 1989.

(3) Jonathan Kozol, Rachel and Her Children (New York: Crown, 1988).

(4) Bulletin, Human Resources Administration, New York City, January 1989.

(5) Felstein and Stegman, p. 79.

(6) The numbers come in large part from an interview and a telephone conversation with Kenneth Murphy, director, Homeless Family Programs, Human Resources Administration, New York City, March 31, 1989, and June 16, 1989.

(7) "Dinkins Wins Delay on Homeless Bill," New York Times, February 24, 1990, p. A11.

(8) Telephone interview with Linda Lucas, special assistant to the deputy commissioner of crisis intervention services, Human Resources Administration, New York City, November 16, 1989.

(9) Cost information in this and the following subsection is taken mainly from an interview with Allen Kraus, deputy commissioner of income maintenance, Human Resources Administration, New York City, March 31, 1989, and from a telephone conversation with Kraus, May 26, 1989.

(10) "Ten Year Housing Plan: Fiscal Years 1989-1998," New York City, n.d., photocopy.

(11) Felstein and Stegman, pp. 23, 24.

(12) William Tucker, The Excluded Americans: Homelessness and Housing Policies (Washington: Regnery Gateway Press, 1990), p. 311.

(13) Jonathan Kozol, "Here Comes Shelter Chic," Washington Post, April 2, 1989, p. C5.

(14) William Tucker, "Where Do the Homeless Come from?" National Review, September 25, 1987, reprinted as "America's Homeless: Victims of Rent Control and Zoning," Backgrounder no. 685, Heritage Foundation, January 12, 1989, p. 2.

(15) Computed from data in Felstein and Stegman, Table 1.3, p. 17.

(16) "Stalking the Rent-Controlled Tenant," Washington Post, April 5, 1988, p. A4.

(17) Felstein and Stegman, pp. 124-30.

(18) "Rent-Control Foes Lose," Daily News, April 5, 1988, p. C5.

(19) "Stalking the Rent-Controlled Tenant," p. A3.

(20) Peat Marwick Main & Co., "A Financial Analysis of Rent Regulation in New York City: Costs and Opportunities," final report to the Rent Stabilization Association of New York City, Inc., April 13, 1988, mimeographed, pp. 2, 8, 9, 15, exhibit 3.

(21) Ibid., exhibit 5, p. iii.

(22) Tucker, The Excluded Americans, pp. 268-73.

(23) Irving Welfeld, Where We Live (New York: Simon and Schuster, 1988), p. 153.

(24) Felstein and Stegman, pp. 90-94.

(25) Welfeld, p. 153.

(26) Tucker, "America's Homeless," p. 3.

(27) "New York City Apartment Vacancy Bill Is Slated for Committee Debate Today," Wall Street Journal, April 14, 1989, p. B38.

(28) "A Financial Analysis of Rent Regulation in New York City," p. 15.

(29) Ibid., pp. iii, 16.

(30) Ibid., p. iii.

(31) Felstein and Stegman, p. x.

(32) Ibid.

(33) Ibid., pp. 172-80.

(34) Ibid., p. 181.

(35) Arthur D. Little, Inc., The Owners of New York's Rental Housing: A Profile, cited in Welfeld, p. 146.

(36) Tucker, The Excluded Americans, p. 292.

(37) Welfeld, p. 155.

(38) Ibid., p. 155.

(39) Ibid., p. 152.

(40) Tucker, The Excluded Americans, p. 297.

(41) Ibid., p. 302.

(42) Felstein and Stegman, p. ii.

(43) Ibid., p. 119.

(44) The factual material in this and the following three subsections is taken in part from a telephone interview with William Spiller, deputy commissioner of housing preservation and development, Office of Property Management, New York City, June 15, 1989. Additional details and statistics can be found in "Ten Year Housing Plan" and in the Mayor's Management Report, New York City, n.d., photocopy.

(45) Tucker, The Excluded Americans, p. 312.

(46) "New York Fight over Rent-Rise Limits for Commercial Spaces to Come to a Vote," Wall Street Journal, June 21, 1989, p. A7B.

(47) Tucker, The Excluded Americans, p. 313. Chapter 22 explores the problem in detail.

(48) Ibid., p. 317.

(49) Felstein and Stegman, pp. 183, 184.

(50) "Major Policy Initiatives: Fiscal Year 1990," Executive Office of the President of the United States, n.d., photocopy, p. 53.

(51) Tucker, The Excluded Americans, pp. 320-21.

(52) Ibid., p. 322.

(53) Richard Duke, "Local Building Codes and the Use of Cost- Saving Methods," staff report of the Bureau of Economics to the Federal Trade Commission, December 1988, photocopy, p. 11.

(54) Telephone conversation with David Conover, analyst, National Conference of States on Building Codes and Standards, Inc., Herndon, Va., April 5, 1989.

(55) Felstein and Stegman, p. 180.

(56) Cited in "Housing's High Costs," Wall Street Journal, May 9, 1989, p. A22.

(57) "Help for the Homeless," Newsweek, April 11, 1988, p. 58.

(58) Ibid., p. 59.

(59) "D.C. Motel Still Home to Many Families," Washington Post, April 5, 1989, pp. A1, A18, and "Homelessness Frustrates District's Best Efforts," Washington Post, May 29, 1989, pp. B1, B8.

(60) "Barry Vows to Move 400 St. Elizabeth's Patients by the End of 1991," Washington Post, June 3, 1989, pp. B1, B4.

(61) "High Rents Put Area Apartments beyond Reach of Many Residents," Washington Post, March 19, 1988, p. E1.

(62) Felstein and Stegman, pp. 181, 182.

(63) The factual material on modular housing is drawn from a telephone interview with James Birdsong, executive director, Building Systems Council, National Association of Home Builders, June 15, 1989.

(64) The factual material in this section is drawn from tele- phone interviews with Bruce Butterfield, vice president for public affairs, Manufactured Housing Institute, June 8, 1989, and June 21, 1989.

(65) Felstein and Stegman, pp. 11, 12.