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Housing and the Poor in Minneapolis

Report of the
Urban Coalition of Minneapolis
Housing Task Force

March 13, 1981

SUMMARY

In response to the spreading problems of minority and lower-income residents of the City in finding decent, affordable places to live, and to requests to "get involved" again in housing, the Urban Coalition of Minneapolis (UCM) Board created a Housing Task Force. The charge of the Task Force was to "study the needs of the poor and non-white population of Minneapolis as they pertain to housing," and to "recommend (to the UCM Board) what role the Urban Coalition of Minneapolis will play in addressing the housing issues."

This report is, first and foremost, a vehicle by which the UCM Board can begin to evaluate and determine the appropriate posture for the Urban Coalition in the field of housing. An additional goal of the Task Force was to begin to define principles that might guide current and future policy-makers to ensure that the needs of those with the greatest housing hardships are met.

I. Introduction

The Task Force believes the following figures reveal the magnitude of housing need in the City.

- Over 35,000 households (22% of all households) are eligible, based on income, for the nation's major housing subsidy program.^{1*} This compares to a total of some 13,000 subsidized units in Minneapolis.
- A recent survey indicated 10,000 Minneapolis households are very low-income** and devote an average of over 50 percent of their earnings to housing costs. One-fifth of these households are minorities, compared to 12 percent of all households in the City.²

*The program referred to here is Section 8 rent assistance. Eligibility is based on 80 percent of the area median income. In Minneapolis, a family of four must make less than \$18,900 to qualify.

**Very low-income is defined as 50 percent of the area median income, currently \$11,800 for a four-person household in the City.

- Minneapolis is more than 500 units of assisted family housing behind modest three-year goals established by the City for the Department of Housing and Urban Development (HUD).

The Task Force further believes a variety of economic and political factors have recently changed to form a significant "new context" for housing policy. The essential elements of this new context are outlined below. Housing problems in Minneapolis must be addressed mindful of these housing "facts of life," because they constitute the environment in which housing policy decisions now must be made.

- The private market no longer produces new low- and moderate-income housing without substantial subsidies.
- The "trickle down" of housing does not function effectively to provide sufficient lower-income housing.
- The public sector response on lower-income housing is muddled, inadequate and diminishing. Further, overall housing-related expenditures by the federal government are positively related to income.*
- Rapidly rising energy prices represent a new level of operating expense that threatens housing affordability for both lower-income homeowners and renters.
- Rapid turnover in the ownership of housing, especially rental properties, through speculation raises the cost of housing. Powerful tax incentives underlie this activity.
- The upward trend in interest rates is a significant barrier to construction and rehabilitation activity, and contributes greatly to increased housing costs.

II. Lower-Income Housing Problems in the City

The Task Force finds that five major problems, supply, affordability, discrimination, displacement and emergency housing, underlie the housing hardships faced by lower-income households in Minneapolis.

*The most pervasive and costly housing expenditures are provided through the federal income tax system in the form of homeowner and investor deductions. In fact, the total of all direct assisted housing payments made to lower-income households, from the inception of public housing in 1937 through 1979, is less than the cost of housing-related tax expenditures in 1979 alone. Of these tax expenditures, over 70 percent went to people with incomes of greater than \$20,000.³

1. Supply

The pressures on lower-income housing supply come from at least three directions. First, most new construction in the last decade has been market rate units, unaffordable to lower-income households. Section 8 New Construction has added only 285 low-cost family units to the housing stock since 1976.⁴

Second, numerous lower-cost, multi-family units have been lost to demolition, reducing the existing supply. Over 1,200 units in multiple-unit buildings have been removed from the housing stock since 1976,⁵ a large percentage of which were in all likelihood low-cost apartments. (Conversions further contract the low-cost supply -- see item 4, Displacement).

Third, the number of publicly-assisted units constructed in recent years or projected for construction is small in relation to need. Based on current production levels, it would take 18 years to house the 10,000 very low-income households paying close to half their income for housing in new subsidized units.⁶

These factors combine to create a severe problem of housing supply, as revealed by steadily declining vacancy rates. The problem is especially severe with regard to family units (see also item 3, Discrimination).

2. Affordability

The average purchase price of a home in Minneapolis has risen by 124 percent since 1972.⁷ * The income required to purchase the average home in 1980 exceeded \$33,000.**

*Downpayments have traditionally been another problem for lower-income households in affording a home. Obviously, as prices rise, downpayment requirements increase and the problem intensifies.

**Assuming 30 percent of income for housing, 5-percent downpayment, 14½-percent interest, 30-year term and \$100 per month in taxes and insurance.

The median rent in Minneapolis has risen 62 percent since 1968.⁸

Median rents have been rising faster than the median income of renters in the City. As a result, 85 percent of very low-income tenants in Minneapolis currently pay more than 25 percent of income for rent.⁹

Housing affordability is a problem largely because of the combination of finance difficulties, rising construction costs, demand pressures and energy costs. Whether for existing homes or new single and multi-family dwellings, the cost of financing has become prohibitive.* Mortgage rates in Minneapolis rose from 6.5 percent in 1968 to over 14.5 percent by the end of 1980.¹⁰ Construction costs in the metropolitan area have increased by 115 percent since 1972, adding directly to the cost of new and rehabilitated housing.¹¹ High demand for housing (the number of households in Minneapolis has remained stable despite decreases in population) in relation to limited construction activity over the past several years has also contributed to the affordability problem. Finally, rising energy costs are an increasingly onerous burden on lower-income households.**

*The effect of high interest rates on the monthly payments for a \$50,000 home, or rents necessary to support a \$40,000 apartment unit, is demonstrated below. (Note: A \$10,000 downpayment is assumed in the case of homeownership. Approximately \$100 should also be added to the monthly payment for a homeowner for taxes and insurance).

interest rates (term = 30 years)	6½%	14½%
monthly payment/necessary rent	\$252.83	\$489.83
annual income needed to support payment/rent (assuming 25% of income for housing)	\$12,135	\$23,500

**In combination, the supply and affordability problems make it clear that housing hardships are a function of housing market inadequacies and a limited public sector response as much or more than an "incomes" problem among lower-income households.

3. Discrimination

Discrimination is an additional problem faced by lower-income households. It was reported to the Task Force that discrimination against families with children is a particularly difficult problem.* The State Human Rights Department enforces the recently enacted child discrimination law but often requires months to complete an investigation and render a decision. In general, housing discrimination complaints to State Human Rights and Minneapolis Civil Rights Offices are few in number, reportedly because of fear of retaliation, lack of knowledge, or little hope of gaining relief on the part of complainants.

Another form of discrimination in the City is resistance by some neighborhoods to low-cost housing in general and assisted housing in particular.

4. Displacement

In Minneapolis, displacement is most often the result of investment and regulatory factors.

Investment-related displacement can be caused by either public or private action. From 1978 to 1980, some 360 households were displaced as a consequence of projects financed in part by HUD. Another 150 households have been displaced solely by City projects.¹²** Displacement by private action most often occurs because monthly housing payments increase as a

*By way of anecdotal evidence on this problem, a review of rental vacancy advertisements in a recent Sunday Minneapolis Tribune revealed 81 of approximately 350 available apartments units "for adults," the current euphemism for no children. (That same review found only 56 apartments with three bedrooms, 6 of which would not accept children, pointing up the contribution of discrimination to the supply problem for lower-income families).

**These households are eligible for relocation benefits under federal law.

result of a rehabilitation investment or because units are converted for resale as a condominium or cooperative unit.*

The Inspections Department condemned 613 dwellings units in Minneapolis in 1980 as a result of the housing maintenance code enforcement process.¹⁴ While two-thirds of these units eventually returned to the housing stock, the Minneapolis Housing and Redevelopment Authority (MHRA) estimates that 250 to 300 persons were permanently displaced in this fashion.¹⁵

5. Emergency Housing

Simply put, emergency housing facilities in Minneapolis are severely limited. The City currently contracts for only four units of temporary housing. Private and charitable emergency housing centers report their limited spaces to be almost always full. Hennepin County Welfare is the major emergency housing resources in Minneapolis, using local, low-cost hotels.**

III. Housing Policy: Examples of Counterproductive Directions

Several examples of housing policies and programs are considered to illustrate how a number of recent initiatives have run counter to the interests of lower-income households and the directions of the Task Force believes housing policy must take in coming years.

HOP IV: Conversion of rental units to condominiums through the Home-ownership (HOP) IV Program displaced close to 90 percent of existing residents. The average household size of the condominium buyers was 1.1 persons when the City's goal was to provide ownership opportunities for families.¹⁷

*There have been 1,297 conversions in Minneapolis in the last decade (January, 1970 - November, 1979), indicating the potential for displacement as a result of this activity.¹³

**The Welfare Department reported issuing over 16,000 vouchers in 1980 for temporary housing.¹⁶

Section 8 Rehabilitation -- Maryland House: Privately undertaken renovation resulted in the eviction of 100 lower-income tenants, most of whom will be unable to move back into the completed Section 8 project unless program guidelines are changed.¹⁸

Energy Investments: Current government housing programs often make it impossible to install the optimal amount of energy-saving features during the construction or rehabilitation of units for lower-income people.

HUD Income-Mix Policy: Recently revised HUD standards require that in every case but scattered-site public housing the lowest-income group (\$5,999 or less annually) will receive last priority in selection for assisted housing in Minneapolis.

FHA Insurance: Many lower-income housing developments which meet Section 8 cost limits are rejected for insurance because projected rents are higher than allowed by FHA guidelines.

City Anti-Displacement Policy: Minneapolis has been ordered by HUD to prepare an implementation plan for an already adopted but ineffective anti-displacement policy. The City is resisting this directive.

IV. Housing Policy: New Directions in Minneapolis

During the course of its deliberations, the Housing Task Force identified several "gaps" in housing policy and policy making which are particularly harmful to the interests of the poor in Minneapolis. Foremost among these is that:

- There is no voice speaking in a comprehensive way on the lower-income housing issue, and there is no integration of the divergent housing interests of the City's lower-income and minority communities.

In addition:

- There are no new policies and programs exclusively addressing needs of very low-income households, especially renters, despite the hardships they face.

- There is no good "supply-side" solution to lower-income housing problems in Minneapolis in the foreseeable future;
- There is a critical failure of existing policies and programs for providing lower-income family housing; and
- There is too little emphasis placed on policies directed at conservation and maintenance of the existing housing stock for lower-income households.

Mindful of these gaps, the Task Force began consideration of policy initiatives and approaches to the problems it identified which were responsive to the new context outlined in Section I. The proposed "new directions" in housing will be in the form of general principles, with more specific policies and actions included for further consideration.* The new directions attempt to move beyond old conventions and seek specifically to inject concerns of lower-income people into City housing policy. New directions also have as a primary focus provision of affordable shelter for the poor through public sector housing policy rather than promotion of general economic development or urban revitalization on behalf of higher income groups.

1. Lower-income housing must be the primary focus of government housing assistance.

In a time of waning government support for lower-income housing, there is also an apparent move away from helping the very poor in favor of promoting an "income mix" in projects or neighborhoods, or general economic development and urban revitalization through public sector housing policy. The notion that the lowest-income households should not receive priority in the allocation of government housing subsidies is foreign to the intent of such assistance. Policies to better "target" assistance might include:

*It is important to emphasize that the Task Force does not believe the principles chart a complete course for housing policy in Minneapolis in the '80s. Rather, they are offered as concepts and ideas that could explicitly address lower-income and minority peoples' concerns in housing, the focus of the Task Force.

- use of tax-exempt revenue bonds and tax-increment financing for the benefit of lower-income households;
 - use of CDBG and other aid dollars, such as MHFA mortgage loans, primarily for the same purpose;
 - reversal of HUD's income-mix policy for public housing; and
 - increasing the percentage of Section 8 units allocated to very low-income households in Minneapolis.
2. New construction for low- and moderate-income households should be encouraged as a long-range strategy.

In the long run, new construction is an important part of the solution to lower-income housing problems. Local policies to encourage such activity might include:

- elimination of local zoning and building code features which needlessly add to the cost of new housing;
- revision of HUD property standards to remove barriers to construction of low-cost, "basic" housing;
- concentrated use of pension funds, foundation grants, bond revenues (as in the Minneapolis/St. Paul Family Housing Fund) and available governmental assistance (such as CDBG) to provide capital for low- and moderate-income construction; and
- expansion of services provided by organizations like GMMHC* to facilitate development of lower-income housing throughout the City.

It should be said, however, that no expert who spoke on the future of lower-income housing predicted large scale new construction affordable to the poor would occur any time soon, particularly in the absence of a major federal effort in this area. New construction for lower-income people is a definite long-term goal, and the hope many hold out for a "supply-side" solution to housing problems must not obscure the importance and necessity of policies with a more immediate effect.

3. The supply of existing low-cost housing must remain available and affordable to lower-income households in Minneapolis.

Public sector policies aimed at maintenance of the existing low-cost housing stock as basic, safe and affordable shelter for the poor are the

*Greater Minneapolis Metropolitan Housing Corporation.

most important short-term solutions to lower-income housing problems.

Policies might include:

- better use of existing procedures such as the Tenant Remedies and Hazardous Buildings Acts, and the Denial of Deductions Law to keep buildings low-cost and in standard condition;
- "sensitive" enforcement of housing maintenance codes so that the inspection process does not cause widespread displacement;
- imposition of a fee at time of sale, or other changes in the tax laws to discourage rapid turnover of the ownership of existing rental properties; and
- development of an effective, comprehensive anti-displacement strategy in the City.

4. Rental housing opportunities should be provided for very low-income households, especially families.

Because traditional homeownership is not a realistic possibility for very low-income households who desire it, and because the existing stock of affordable rental units is contracting, provision of low-cost rental housing opportunities, especially for families, must be a priority of the public sector. Policies might include:

- local enforcement of the existing child discrimination law;
- upgrade efforts to meet and surpass HUD's mandate concerning production of subsidized family housing;
- full use of large family Section 8 resources;* and
- targeted use of government assistance not only for lower-income housing in general, but for poor families in particular.

5. The City should pursue opportunities which exist to more fully utilize the entire range of housing in Minneapolis.

It is the belief of the Task Force that there is unused potential in the City's existing housing stock. Given the expense of constructing new dwellings, those unused resources must be tapped. Policies to promote fuller utilization might include:

*These resources are currently underutilized because HUD program guidelines concerning acceptable rent levels for 3+ bedroom apartments are reportedly too restrictive given today's housing market.

- greater availability of conditional use permits for single-family home conversions to duplexes;
 - provision of low-cost housing management services for homeowners willing to provide housing but hesitant to function as a landlord; and
 - elimination of unreasonable housing maintenance code features restricting multiple-family or group occupancy of dwellings.
6. Promotion of energy efficient housing for lower-income households should be an important goal of policy.

With energy costs increasing rapidly, energy efficient housing is more important today than ever before. Unfortunately, existing regulations often either act as barriers to this goal, or allow only limited progress toward energy efficiency in housing. Policies to overcome these difficulties might include:

- review of HUD standards to allow "life cycle costing" of energy improvements in housing;
 - structuring government conservation loan and grant programs so that optimal weatherization improvements can be made; and
 - greatly increasing the scope of rental weatherization programs to include utility conservation investment programs as well as other private and public sector efforts.
7. Alternative forms of housing ownership should be explored and encouraged to provide options for greater control of units by lower-income people, reduced turnover of ownership, and ultimately greater availability of affordable housing for lower-income households.

With the cost of the traditional single-family home beyond the means of low and most moderate-income households, alternatives such as condominium, nonprofit and cooperative ownership of housing are increasingly attractive. Policies might include:

- carefully controlled use of condominium conversions for lower-income renters;
- promotion of limited equity cooperative development by the City and State, particularly in minority communities; and
- non-profit ownership, particularly in minority communities.

The City's experience with promoting condominium conversions has been largely negative for lower-income people (the HOP IV program), but the

approach perhaps deserves more attention. Limited equity cooperatives provide some but not all of the benefits of ownership, but they do stabilize housing costs and offer residents some control of their living environment. Cooperatives and non-profit developments can remove housing units from the for-profit market, thereby eliminating the potential for speculative buying and selling.

8. There is a need for a last line of defense in the form of emergency housing for those facing extraordinary circumstances.

Minneapolis currently contracts for a very limited number of emergency units, a number which should be expanded. Provision of adequate emergency housing, however, is more accurately described as a social or economic assistance program, and should not be mistaken for dealing with the fundamental housing problems which face lower-income households in the City every day.

V. The UCM Role

The Housing Task Force believes the UCM should organize and maintain a new, broad-based participant group in the housing debate in Minneapolis.

The UCM is in a position to accomplish this goal through:

1. contacts with organizations already expert in certain housing problems;
2. in depth research and monitoring of programs and policies in cooperation with these organizations and "new" research when necessary;
3. outreach to draw new organizations, particularly from minority communities, into the housing issue; and
4. advocacy in appropriate public forums of the lower-income viewpoint on housing policy questions along the lines of new directions in this report.

This recommendation is in response to the Task Force's perception that there is currently no voice speaking on housing in a comprehensive way for the City's lower-income and minority communities. While the Task Force

perceives no lack of expertise or innovative thinking on lower-income housing problems, it also sees no attempt to weave a broad approach to problems from the rather specialized areas of interest and experience of organizations currently involved with the issue. Further, groups with a natural interest in housing problems but no experience with housing policy and no contact with existing experts, particularly minority groups, must now be drawn into the issue. Their "presence" in the debate would enhance the content of, and lend further support and credence to the kinds of policy prescriptions included in a broad-based approach to the housing problems of the poor in Minneapolis.



April 8, 1981

Dear Friend of the Coalition,

Enclosed are summaries of two housing studies recently completed at the Urban Coalition.

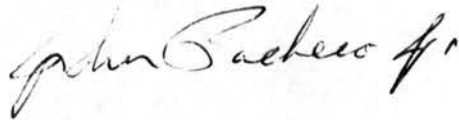
The first is a report of the Housing Task Force created by the Board of the Urban Coalition of Minneapolis to study the problems of the poor and non-white population as they pertain to housing. This report is titled, "Housing and the Poor in Minneapolis".

The second report is a study examining the weatherization of for-profit rental properties by the Urban Coalition Weatherization Program.

Copies of the full report are available at a cost of \$2.50 for the Housing Task Force Report and \$15.00 for the Rental Weatherization Study.

Thank you for your interest and feel free to send us any comments you may have concerning these reports.

Sincerely,



John Pacheco, Jr
Program Officer