

Ed Olsen
Professor of Economics and Public Policy
University of Virginia
Charlottesville, VA
eo@virginia.edu

Oral Testimony

Hearing on Oversight of the HUD Inspection Process

Subcommittee on Housing, Transportation, and Community Development
U.S. Senate Banking, Housing, and Urban Affairs Committee

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I'm delighted to be here today to discuss what should be done about the poor condition of privately-owned subsidized housing projects like those observed by Senators Rubio and Nelson and the disconnect between their observations and what is reported in HUD's system for monitoring the condition of these units. Although I didn't observe the units directly and I'm not intimately familiar with HUD's monitoring system, I hope that I will be able to contribute a little to the discussion based on my knowledge of the programs involved and their performance. I've studied low-income housing assistance for more than 40 years.

I'll cut to the chase. What Senators Rubio and Nelson have uncovered is a perfect illustration of what the systematic evidence shows about the performance of the Section 8 New Construction program and other programs that subsidize the construction of privately-owned low-income housing projects. The total cost of providing this housing (that is, what the tenants pay and all the public subsidies) greatly exceeds the market rents of the units provided. The ultimate solution to this problem is to phase out programs of this type.

However, we also need to deal with existing projects to insure that they provide housing that meets the program's minimum standards. The units observed did not meet these standards and HUD's monitoring system said that they did. I'll describe the program's incentives for poor maintenance and then talk about what should and should not be done about it.

In exchange for substantial subsidies, the developers of privately-owned subsidized housing projects agreed to provide housing meeting certain standards at restricted rents to eligible households for a specified number of years. HUD has a system for monitoring the condition of subsidized housing units. What Senators Rubio and Nelson observed indicate that this system isn't working at all well.

The Senators have already shown that units in a number of projects owned by a particular organization that operates many projects are in deplorable condition. You should not assume that this problem is limited to this one owner. The structure of the program incentivizes poor maintenance.

When built, the units tended to be of reasonable quality because the projects received development subsidies that were proportional to the cost of building them. When new, they were terrific bargains for the tenants. However, the landlords have no incentive to maintain them except for dealing with problems that would severely damage the structure. It takes many years of poor maintenance for units to deteriorate so much that some tenants are unwilling to pay 30% of their modest incomes to live in them. Until this happens, owners can retain their tenants even though they spend little or nothing on maintenance. The monthly subsidy that owners get from HUD does not depend on the level of maintenance, and it is automatically adjusted upward each year to account for inflation. So owners get the same subsidy in real terms year after year even though the housing provided gets worse and worse. With this setup, owners maximize profits by skimping on maintenance.

This problem is exacerbated by the existence of the low-income tax credit program that provides large additional subsidies for the renovation of many of these projects. This restarts the process of undermaintenance and excessive profits.

As long as the units meet the program's minimum housing standards, the owners have honored their commitment and are legally entitled to receive the promised subsidies. HUD is responsible for the inspection of units in these projects on a regular basis to insure that they meet these standards. If violations are detected, owners are supposed to be given a limited amount of time to correct them. If they fail to do it, HUD is supposed to terminate the contract, stop sending the monthly subsidy to the owner, and provide the tenants with housing vouchers. On my understanding of the facts, that did not happen for the projects inspected by Senators Rubio and Nelson because HUD's monitoring system said that the units met the program's minimum standards

The question is what to do about Senator Rubio and Nelson's discovery. The first step is to deal promptly with the problems in the projects observed. The second is to determine whether these are isolated incidents or widespread. Given what I've said, I wouldn't be surprised if they were widespread. I believe that Senators Rubio and Nelson have already done everything that they can reasonably do to deal with this problem. All that is needed is for the committee to follow up on these initiatives.

What should not be done in response to Senator Rubio's discovery is to provide additional subsidies to the owners of these projects to renovate them. The evidence indicates that this is a highly cost-ineffective method for delivering housing assistance. Indeed, we should go further and not renew the contracts for these projects at the end of their use agreements but instead give their occupants housing vouchers. The evidence indicates that amounts well above-market rents are paid when the government renews use agreements with owners of privately owned subsidized projects. In contrast, market rents are paid for units occupied by voucher recipients. If the owners of the projects are providing good housing for the money, their tenants will want to use their vouchers to remain in their current units. Otherwise, the owners shouldn't be in the business of providing housing.