

LOW-END RENTAL HOUSING

THE FORGOTTEN STORY IN BALTIMORE'S HOUSING BOOM

Sandra J. Newman

FUNDED BY THE ABELL FOUNDATION

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ACKNOWLEDGMENTS

An embarrassingly long time ago, Bob Embry, president of the Abell Foundation, asked me to write a paper on the low-end rental market in Baltimore and what might be done about it. This seemed like a reasonably straightforward, small research task at the time, but it has turned out to be anything but straightforward or small. What happened?

There is no way to address this topic competently and accurately without solid, hard data and, as it turned out, such hard evidence was often either nonexistent or difficult to assemble. That I was ultimately able to develop sufficient data to produce this paper owes everything to the help I received from a number of exceptional city and state staff. One unexpected benefit of carrying out this study was working with such talented, professional individuals as Alexis Johns, Steve Janes, Brenda Davies, John Greiner, Tom Stosur, Linda B. Allen, Peter Matthews, Tim Goetzing, Thom Mullaney, and Michelle Thomas. This is only a partial list; everyone who provided data included in this analysis is cited in footnotes and included in the reference list, and I am enormously grateful to them all.

This paper could not have been produced without the assistance of an able team that included two of my very talented former students: Jonathan Lo, then a Johns Hopkins undergraduate; and Rachel Brash, then a graduate student in our Master's Program in Public Policy; along with David Kantor, my long-suffering data programmer; Laura Vernon-Russell, a whiz at production logistics; Felicity Skidmore, a remarkably insightful editor; and last but hardly least, Amy Robie, the best research assistant imaginable.

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EXECUTIVE SUMMARY

Recent headlines in the *Baltimore Sun* proclaim that “real estate’s rising tide” has hit Baltimore’s home prices.¹ At the opposite end of the city’s housing market are an estimated 40,000 low-income renters who cannot afford even the modest rents on their dwellings, live in substandard housing, or both, and nearly 20,000 substandard units renting for less than the median rent. Even a sustained, geographically widespread surge in residential sales will not address the serious problems in the low-end rental market, except possibly in the very long run. These problems are wide-ranging.

Half of all rental units in Baltimore rent for less than \$400 a month and only 15 percent rent for more than \$600.² Low rents threaten the soundness of the stock and a healthful living environment for tenants. But because so many renters are poor, with half having incomes below \$20,000, even these low rents are unaffordable to many. Renters are also getting poorer, with their median incomes dropping, in real terms, between 1990 and 2000. There are about two poor renters for every affordable housing unit in the city, and more than 16,000 households are on the waiting list for assisted housing. Nearly half of renter households with children are paying more than 30 percent of their income for rent, yet more than 40 percent of them are living in physically inadequate housing. More than one-third of the rental stock in Baltimore does not meet basic housing codes of physical adequacy. And with a rate of physical deficiencies 50 percent higher than that for the surrounding metropolitan area, Baltimore’s rental “bargains” are not luring residents from the region to relocate in the city. Many of these problems are related to the aging housing stock. In 2000, the median age of housing in the U.S. was 30-something; in central cities, it was 40-something; and in Baltimore, it was 50-something.³

¹ Hopkins (2005).

² Author’s tabulations from 2000 Census data, SF3.

³ This perspective was inspired by Listokin and Listokin (2001), 1.

Neighborhood problems, such as crime, noise, and abandoned buildings, though widespread, are about twice as prevalent among physically substandard units with rents below the median as among higher-rent units. Added to this is the predominance of small-scale owners in the rental market who are highly unlikely to earn positive returns, leaving little or no reserves for capital maintenance and improvement; who often lack the management skills and savvy required to write grant applications for government subsidies; and who do not have the economies of scale in property management (including maintenance and repair) enjoyed by large-scale operators. Topping off this mix, the city's Section 8 voucher program has been in the throes of a management crisis that is taking years to reverse.

This, of course, also means that as many as two-thirds of rental units—including low-rent units—are estimated to be physically adequate. Another potentially encouraging finding is that up to a third that fall below code do so solely because of interior problems that might be inexpensive to repair. There are an estimated 11,000 rental units in this group, with somewhere between one-half and two-thirds rented by low-income households.⁴

This paper disaggregates the range of problems besetting the low-end rental market and identifies specific initiatives (both public and private) that could reduce the problems. Among these are the federal Section 8 voucher program and the project-based voucher program. These were designed to address the problems of housing affordability and physically inadequate housing, either separately or in combination. They are essential programs to the city of Baltimore. Every effort should be made to ensure that the city receives its fair share of these resources from HUD, and that it manages these programs expertly so landlords begin to trust the programs enough to participate and the maximum number of needy tenants are assisted. If the city continues to face difficulties in managing the Section 8 voucher program, it should consider contracting out the program, as other cities have done.

⁴The lower-bound estimate defines low income as below the median income of city renters. The upper-bound estimate uses the U.S. Department of Housing and Urban Development's income cutoff of \$25,000 for a three-person household in the Section 8 voucher program.

The city currently addresses the problem of physically inadequate low-income rental housing in three ways: code enforcement, lead-based paint abatement, and rental rehabilitation programs. These are all valuable. But each operates autonomously, reducing its potential effectiveness. Also, small-scale properties—where the bulk of low-rent units (40–50 percent) and low-income renters are concentrated—are excluded from both the code and rehab components, vastly reducing the programs' ability to remediate the problems they are designed to address.⁵ Alternative approaches to linking these programs and filling current gaps could be tested through a demonstration program.

An estimated \$95 million from federal, state, and city sources was spent in the city of Baltimore on rental rehab between 1999 and 2003. But essentially none of this funding is accessible to properties with fewer than five dwelling units, despite the fact that over three-quarters of the city's rental units with physical inadequacies are located in small-scale properties, and more than 60 percent of its low-rent units are located in these smaller structures. One alternative is for the city to reconsider creating its own housing trust fund,⁶ comparable to the Maryland Affordable Housing Trust created by the state in 1992.⁷ The goal of such trust funds is to earmark dollars specifically for investment in affordable housing. Baltimore might consider earmarking a fraction of its revenues from the transfer and recordation tax to seed the fund, since these sources have increased as a result of the upsurge in home prices and sales.⁸

An additional, fundamental obstacle to shoring up the physical integrity of the low-end rental market stock is its ownership—more than 80 percent owned by Mom and Pop owners, often undercapitalized and lacking real estate financing and management savvy. It is hard to see how Baltimore can improve its low-

⁵Low-rent units are either below median rent or rented by households with below median income for renters.

⁶Center for Community Change (2003); Soifer (2001). On April 20, 2005, Councilman Jack Young presented his proposal for a city housing trust fund with revenues from in-lieu housing fees and a share of equity from home sales (Young 2005).

⁷Maryland Department of Housing and Community Development (2003).

⁸Office of the Mayor (2005).

rent properties significantly until the ownership challenge is addressed. Options here range from modest changes, such as providing technical assistance, to a radical restructuring of ownership, such as by transferring property from individual to institutional ownership through a small multifamily real-estate investment trust (or S-REIT).⁹

Two vital assets would help the city grapple with its low-end rental housing market. The first is timely and accurate data that would allow program designers and policymakers to better understand this market and to answer critical questions about underlying problems, not just symptoms. The second vital asset is program evaluation. If the city wants to make sure every dollar it ultimately invests in the low-end rental market counts, there is no short-cut around careful evaluation of its initiatives. To get the most policy value out of evaluations, they must be planned alongside the initiative right from the start, and must last long enough that effects can be measured after the program has worked out its kinks and is in steady state.¹⁰

⁹Narasimhan (2001).

¹⁰See Thornton et al. (1999) for a useful discussion of the policy value of evaluation research.

LOW-END RENTAL HOUSING: THE FORGOTTEN STORY IN BALTIMORE'S HOUSING BOOM

Roughly 40 years ago, Baltimore's housing market faced a crossroads. The housing stock had survived the urban unrest of the 1960s and much of it was in relatively good condition. The number of substandard units was smaller than in many other cities of comparable size and character.¹ But 25 percent of the overall stock fell below housing codes, and the stock was deteriorating.²

¹ Based on the American Housing Survey (AHS), conducted by the Census Bureau for the U.S. Department of Housing and Urban Development (HUD). The AHS substandard measure emulates both the housing quality standard HUD uses in its annual inspections of housing it subsidizes and local housing codes. According to the AHS, units are considered substandard if they have any of the following problems: incomplete plumbing; incomplete kitchen facilities; two or more interior problems (leaking roof, leaking basement, open cracks or holes in walls or ceilings, holes in floors, peeling paint or broken plaster of one square foot, evidence of mice or rats in the last 90 days); two or more common-area problems (no working light fixtures in common hallway, broken stairs, broken stair railings, no elevator in buildings of four or more stories); heated by unvented room heaters; three or more toilet breakdowns lasting six or more hours in the last 90 days; three or more heating breakdowns of six or more hours last winter; one or more rooms without a working wall outlet; fuses blown or circuit breakers tripped three or more times in last 90 days; exposed wiring. (Several different years of AHS data are used in this paper. The common area problem "no working elevator" does not apply to the 1979 survey.)

² Stegman (1972).

Now, judging by recent residential sales activity, things seem to be improving. In the past five years, for example, median sales prices increased by about 15 percent in real terms.³ This uptick began in earnest in 2003, with increases of about 15 percent between 2002 and 2003, followed by an additional 22 percent through November 2004.

But this new upward trend was not shared equally throughout the housing market. The increases were concentrated in the higher-priced housing stock, with sales price decreases concentrated among units selling for less than \$60,000.⁴ The bottom half of the *rental* housing market is in an even more precarious state. Here, the dominant direction, particularly in the last decade, has been south.⁵ In the late 1990s, the former director of the city's Department of Housing and Community Development (HCD) estimated that 40,000 residential properties were abandoned,⁶ while the 2000 Census put the overall rental vacancy rate at 7.6 percent, nearly twice the norm even for "slow growth" areas.⁷ Half the operational rental housing stock rents for \$400 or less, one-third of these units do not meet housing codes,⁸ and more than half of all poor renter households with children—some 7,000 households—live in substandard units.⁹ Baltimore ranks among the top three cities of similar size in the proportion of substandard

³ Time frame includes 1999 through November 2004. Author's calculations based on census tracts using Baltimore City Department of Housing and Community Development (2005a). Inflation-adjusted with Washington-Baltimore Area Shelter Consumer Price Index (CPI).

⁴ Newman (2005).

⁵ Baltimore City HCD (2000, p. 12) offers a similar characterization.

⁶ *Baltimore Sun* (1997).

⁷ Atkinson (2001); HUD (1970). The 1998 AHS is not a reliable source for estimating the vacancy rate, as described briefly in appendix A.

⁸ Author's calculation from the AHS, 1998 metropolitan area file. This estimate does not include units with lead-based paint. Unfortunately, the overlap between units that the AHS designates as substandard and those with lead-based paint is unknown.

⁹ Author's calculation from the AHS, 1998 metropolitan area file. Poor renters are those with incomes below the median income of all renters, adjusted for family size.

rental units.¹⁰ Almost all poor renters in the city who are not receiving housing subsidies have what the federal government calls “worst case needs”; they are either living in severely inadequate housing or paying more than 50 percent of their income for rent.¹¹ And more than 16,000 households are on the waiting list for subsidized housing.¹²

How did Baltimore’s low-end rental housing market get into such trouble? In the economist’s parlance, housing is a lagging indicator. What has happened to Baltimore’s rental market is a reflection of what has happened to the city more generally. Over the past 30 years, Baltimore has lost 28 percent of its residents and more than 50 percent of its white population.¹³ Baltimore lost roughly 15 percent of its jobs between 1970 and 2000, and more than half the jobs in the city are now held by commuters.¹⁴ By 1998, the city’s median household income was roughly 45 percent lower than that in the surrounding counties.¹⁵ Worse, between now and 2020, the number of jobs is projected to remain at about current levels, with the only significant growth in the service sector.¹⁶

The projections developed by city, county, and state planners in 1985 were far more optimistic than reality is turning out to be. Even the “middle ground” estimates had put the city’s population

¹⁰ The other cities with populations roughly between 500,000 and 1 million with similar proportions of substandard rental units in the late 1990s were Cleveland and San Francisco (author’s calculation, AHS metropolitan files for 1996 and 1998 and national file for 1999).

¹¹ “Severely inadequate” is a more restrictive definition than substandard. The primary difference is the requirement of at least one of five serious inadequacies in major housing systems or the home’s interior.

¹² Smith (2005); Thomas (2005).

¹³ Author’s calculation based on a comparison of the 1970 and 2000 censuses.

¹⁴ Maryland Department of Planning (2003, 2004a).

¹⁵ Author’s calculation from the AHS 1998 metropolitan area file.

¹⁶ Although the Bureau of Labor Statistics (BLS) had reported 8,000 additional jobs in Baltimore in November 2004 than in November 2003, the BLS subsequently adjusted these monthly estimates to be identical. Further, the annual estimate of total jobs for 2004 is 6,200 less than for 2003 (U.S. Department of Labor 2005a).

in the year 2000 at 725,000—roughly 74,000 persons higher than the 651,154 persons counted in the 2000 Census,¹⁷ and 95,000 higher than the state's July 2003 estimate of 643,000.¹⁸

This report focuses on the low-end rental housing market in Baltimore, where the most serious problems and greatest challenges lie. The city has several initiatives under way directed at its more general problems, whose resolution will assuredly take some time. Meanwhile, there are an estimated 52,000 renters with low incomes and roughly 48,000 rental units at the bottom of the market that have significant problems. I address three questions: What is the status of low-end rental housing—the housing stock, its tenants, and its owners—in the city? What is currently being done to improve the situation? What else might be considered?

The ideal data to answer these questions do not exist for Baltimore, or almost certainly for any other city. The best sources available are the 1998 American Housing Survey (AHS) metropolitan area file, which contains a representative sample of Baltimore city housing units and residents, and the 2000 Census.¹⁹ Additional data are available from city and state agency administrative and budgetary records. Most of the figures I cite come from the AHS, which provides conservative estimates of the severity of the various problems I examine. (Appendix A describes these data files and appendix B provides key estimates.)

Since a lot can change in five to seven years, particular neighborhoods here and there may buck the trends in citywide data. These changes and counterexamples are important. But, precisely because they buck the trend, these neighborhoods are the

¹⁷ U.S. Department of Commerce, Bureau of the Census (2000b).

¹⁸ Maryland Department of Planning (2004b). The Census Bureau has accepted the city's challenge to the original July 2003 number of roughly 630,000 and recently increased the official July estimate to 643,304. The mayor's office believes that the loss of population, including the middle class, has stopped and bases this view on construction permits in upper-income neighborhoods and conversion of commercial units to middle- and higher-end residential units (Kearney 2005).

¹⁹ The 1998 AHS metro file includes data on a representative sample of 953 occupied housing units (and households) in the city of Baltimore, including 432 occupied rental units.

exceptions, not the rule. It is important to understand the broader picture if we are to have any realistic chance of widespread improvement.

THE STATUS OF LOW-END RENTAL HOUSING

If any single aspect of housing has become a nationwide political issue over the past decade, it is lack of affordable housing. News accounts of booming cities report that even middle-income households struggle to find rental units they can afford. Jobs, population, and income growth have heated up the rental housing market in such places, producing low vacancies and high rents.

Baltimore has been almost a mirror image of these cities. Its demographics tell most of the story. In 2000, the city had 28 percent fewer residents than 30 years earlier, and many of those left behind in the selective migration were poor. In 1998, nearly 25 percent of the population had incomes below the poverty line, 10 percent was receiving welfare, and only 14 percent of households with incomes above the metropolitan area median were living in the city, compared with 46 percent in 1960.²⁰ While the city's overall share of population below poverty has not changed much in 20 years, the fraction of renters below poverty has grown slightly, and the fraction of renters with incomes below the city's average renter income grew from about 74 percent in 1980 to about 80 percent in 2000.²¹

The rental housing market has had a textbook response. Vacancy rates are high, rents are low, and a sizable share of units

²⁰ Author's calculation from the AHS 1998 metro area file; Szanton (1986). Welfare is defined as Temporary Assistance to Needy Families (TANF) or the program it replaced in 1996, Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), or General Assistance (GA). Most of the estimates in the text refer to 1998.

²¹ U.S. Department of Commerce (2003). According to the 2000 Census, more than 81,000 renters have incomes below the city's average renter income. The census indicates that the median income of renters also declined in real terms between 1990 and 2000.

are in poor shape. Baltimore has its own serious affordability problem. But here, the problem arises because so many renters in the city are poor, not because a shortage of rental housing has bid up rents to levels that are unattainable by even middle-income families.

Assessing the health of a housing market requires studying both demand and supply over time. In the best of all possible worlds, on the demand side we would examine the changing characteristics of Baltimore households and the reasons they choose to move into, or out of, the city's rental units. On the supply side we would select a representative sample of properties and collect comprehensive information about them over time, including their ownership, financing, tenantry, maintenance, and capital improvements. Such information is not available for Baltimore nor, to my knowledge, any other city.

In the absence of such detailed information, I must limit myself to generally accepted indicators of housing status available in census data and administrative records. There are inevitable frustrations in analyzing such data—for example, the latest American Housing Survey in Baltimore was conducted in 1998, and comparable indicators at different points in time are lacking. Even so, the data I use are sufficient to establish the main plot of the story. But the analysis also raises some important questions that could not be addressed with available data. I highlight these as they arise, and suggest what it would take to understand them better.

Baltimore City Renters

Demography plays a leading role in the housing market because it determines what is needed, what is affordable, and what is wanted. Between 1970 and 2000, the city lost about 32,000 renter households.²² In 2000, roughly half of all households (about 128,000) in the city were renters. The rate of homeownership in the city has edged upward, but ever so slowly—about

²² Author's calculations using decennial census data (1970, 1980, 1990, 2000).

0.2 percent a year between 1970, when it was about 45 percent, and 2000, when it was roughly 50 percent.²³ The income profile of city renters partly explains why homeownership has expanded at a snail's pace. Their median income was less than \$20,000 in 1998—about one-third lower than the city's median income or the median income of renters in the rest of the metropolitan area, and lower than the median income of renters in most other large cities.²⁴ And, as noted, renters in the city have been getting poorer in real terms, with inflation-adjusted median income at the end of the 1990s about one-fourth lower than at the beginning.²⁵ Nearly a fifth of Baltimore renters received welfare in 1998 and more than 70 percent were racial minorities.²⁶ This is consistent with the exodus of whites and middle- and upper-income households from the city, where whites made up 56 percent of the population in 1970 compared with only 32 percent in 2000.²⁷

Housing needs and preferences are known to vary for different types of households. During the 1990s, the household profile of renters in Baltimore changed dramatically. The nonelderly renter group without children grew from about 40 percent of all renters in 1991 to roughly 50 percent in 1998 (about 52,000). Renters with children declined commensurately from about 40 percent to less than 33 percent (about 33,000) of all renter households. Elderly renters are the one group that remained

²³ Author's calculations using decennial census data (1970, 1980, 1990, 2000). Because of the overall population loss in the city, the absolute number of owners in 2000 was only 1,106 greater than 30 years earlier.

²⁴ Large cities are those with populations of 500,000 or more. Author's calculation based on AHS, 1996 and 1998 metro files and 1999 national file, and the 2000 Census. The median income of renters in the 1998 AHS was \$14,002 and in the 2000 Census was roughly \$19,000 (1998\$) (see appendix A).

²⁵ The inflation-adjusted (1998\$) median income of renters was \$19,706 in 1991 and \$14,002 in 1998.

²⁶ Minority proportions among all renters and among low-income renters grew by roughly 16 percent between 1980 and 2000 (U.S. Department of Commerce 2003).

²⁷ 1970 and 2000 census data. For the 2000 Census, estimate for white respondents based on those choosing only the "white" racial category.

relatively stable, growing only from 16 to 18 percent of renter households (about 19,000).

Elderly renters had the lowest median incomes of any household group by far in 1998, at \$6,132. Although both nonelderly household groups had higher median incomes than the elderly—about \$17,000 for both households with children and other households—they were considerably below the median for all city households. After accounting for household size and age, households with children had incomes that were, on average, about \$3,400 above the poverty level, compared with closer to \$1,800 below the poverty level for the elderly, and about twice the poverty level for other households.

Households with children are the most vulnerable demographic group among renter households. Over 80 percent were headed by a female, over 80 percent were nonwhite, 61 percent had incomes below the city's median income, and roughly 30 percent were on welfare in 1998.

Vacancy Rates and Abandonment

Former Mayor Kurt Schmoke captured the effect of the city's shrinking population on vacancy rates when, in 1997, he said, "We've got a housing stock that is designed for 950,000 people, and you've got a current population of 675,000."²⁸ The postscript to this comment is that by July 2003, the population had dropped to an estimated 643,000.²⁹

The official vacancy rate, reflected in U.S. census data—the proportion of units that are unoccupied yet fit for human habitation—is one way to look at the health of a housing market. It is, for example, a good indicator of the tightness or looseness of the market as a whole; that is, how hard or easy it is for a household to find a place—any place—to rent. By this measure, Baltimore's rental market is loose, as noted, with many units for prospective renters to choose from. But "fit for human habitation" does *not* mean units are in decent shape. Unfortunately, decennial census data do not

²⁸ O'Donnell and Haner (1997).

²⁹ Maryland Department of Planning (2004b).

distinguish between vacant units in good shape and those in poor shape, and no other data are available to determine whether Baltimore has, within its weak rental market, a tight submarket for decent units.

A different way to look at the health of the market is to count the total number of vacant units, including those not fit for occupancy. These abandoned units measure the extent of residential disinvestment in the city. Interviews with rental property owners reveal that abandoned units affect more than the city's image and aesthetics. According to one owner, when more than a quarter of the houses on a block are abandoned, many landlords stop maintaining their units because it's "no longer worth it." Several who own properties on such blocks reported that they are trying (often unsuccessfully) to sell them for as little as \$500 to \$1,000 per house. In a soft market with the highest property tax rate in the state (\$2.33 per \$100 assessed value),³⁰ a serious lead paint problem, and few, if any, sources of capital, the absence of buyers should be no surprise. The next step for at least some units is abandonment.

The number of abandoned units in the city has been a subject of considerable controversy. The truth is that no one knows, because a valid count has not been conducted. In 2002, the city housing department pegged the number at 13,830.³¹ But housing activists and property owners insisted it was around 40,000, and the former city housing department director ultimately acknowledged it was probably close to that number.³² No data exist on the portion of these abandoned units that were once rentals; some housing activists contend that most were. Even if we assume the 2002 estimate is close and that only 15,000 abandoned properties were once available for rent, the "vacant plus

³⁰ Maryland Department of Assessments (2004).

³¹ Baltimore City HCD (2002). The *Consolidated Plan*, a document the city prepares for HUD, however, puts the total number of unoccupied properties at 53,000. This total consists of 14,500 habitable dwellings that would be unoccupied assuming a 6 percent vacancy rate, 16,000 dwellings unfit for habitation, and 22,500 habitable dwellings. The portion of these that are rental units is not reported.

³² *Baltimore Sun* (1997).

abandoned” rate rises to more than 20 percent of all rental units in the city.³³

Rents

In the face of an oversupply of rental housing and a shrinking population, we would expect to see declining rents.³⁴ That is exactly what happened between 1970 and 1980, when the median rent fell, in real terms, from \$370 to \$319. But then it rose to \$400 in 1990.³⁵ Since the market was very soft in the 1980s, why would rents rise by 26 percent over the next decade? The answer is that the increase was due almost entirely to the development of higher-priced units concentrated in a handful of city neighborhoods. Units renting for more than \$600 a month increased by about 30 percent between 1979 and 1991—from 8,857 to 11,474 units.³⁶ This increase occurred at the same time that the city’s rental stock decreased by roughly 5 percent (about 6,500 units). Beyond bulwark neighborhoods such as Roland Park and Homeland and high-priced enclaves such as Cross Keys, part of the increase in median rent was driven by the gentrifying neighborhoods along the waterfront, such as Federal Hill, Fells Point, and Canton. Neighborhoods near the Johns Hopkins Homewood Campus, Bolton Hill, and trendy neighborhoods near the downtown, such as Downtown at the Inner Harbor, also played an important role (see appendix C for further details on this analysis).

³³ Using the numbers in the city’s *Consolidated Plan* (Baltimore City HCD 2000) produces close to the same 20 percent estimate: 53,000 uninhabited units (14,500 habitable dwellings + 16,000 “under notice” + 22,500 “habitable but . . . a severe drag on the market”)/295,050 total units = 18 percent unoccupied (see p. 12). Since the 6 percent vacancy rate assumed here is an underestimate of the census vacancy rate of 7.6 percent, the fraction of unoccupied units moves closer to 20 percent.

³⁴ Rent figures reported in this discussion have been adjusted for inflation using the CPI for urban consumers and are expressed in 1998 dollars. Rent refers to contract rent—that is, the rent set forth in lease terms, which may or may not include utilities or other charges.

³⁵ Figures are adjusted for inflation (1998\$) using “U.S. Cities Average All Items” (U.S. Department of Labor 2005b).

³⁶ Author’s calculation using AHS 1979 and 1991 metro files.

Even though the median rent fell in real terms during the 1990s to \$387 in 2000, high-end rents increased, though at a reduced rate.³⁷ Units renting for more than \$600 increased by about 8 percent between 1991 and 1998. Although this translates to only about 900 units, it is noteworthy because the rental stock declined more during the 1990s than during the 1980s—a loss of about 10 percent (14,000 units). Although some market-rate and upscale rentals were brought online during the 1990s,³⁸ this activity was insufficient to bump up the city's median rent. Only 12 of the city's more than 200 neighborhoods experienced a median rent increase of at least 10 percent.³⁹

These are clearly niche areas representing a submarket not typical of the rest of the city. Half of all units in the city rented for roughly \$400 or less in 2000, for example, putting Baltimore in the bottom tier of rents for the largest cities in the nation, ranking better only than Detroit (median rent, \$383) and Oklahoma City (median rent, \$386).

Rents in the city are dramatically lower than those in the surrounding metropolitan area, a differential that increased slightly between 1991 and 1998. By decade's end, the city's median rent was nearly one-third lower than in the surrounding five counties (\$400 versus \$584). This would be good news if it meant the city's rents were housing bargains. For this to be the case, however, someone searching for a place to rent would have to encounter about the same proportion of units that meet basic housing quality standards and are located in good neighborhoods within the city as outside it. The news would be bad, however, if city renters' low incomes put the higher-quality and higher-priced units out of reach. It would also be bad news if the price differential reflected a difference in housing quality and neighborhood conditions. Unfortunately, the bad news scenarios prevail, as discussed next.

³⁷ During the 1980s, units renting for \$600 or more increased by about 2.3 percent per year. During the 1990s, these units increased at about 1 percent per year (U.S. Department of Labor 2005b).

³⁸ For example, the rehabilitated apartment buildings along Druid Park Lake Drive in northern Reservoir Hill.

³⁹ Author's calculation using census tract data for 1990 and 2000. This calculation excludes units renting for less than \$350 in 1990 (in 2000\$).

Affordability

Despite very low rents, Baltimore city's rental market has a substantial affordability problem. The standard rule of thumb for housing affordability—30 percent of income for rent—indicates the median renter in Baltimore could only afford a unit renting for \$350 or less in 1998. Since there were about 42,000 such units in the city, but about 52,000 renter households with incomes below the median, there was an affordability shortfall of about 25 percent. In fact, the situation is even more dire than the numbers suggest. Because low-rent units are not the exclusive preserve of low-income renters, those with higher incomes are free to seek out lower-rent units to reduce their housing cost burden below the 30 percent standard. This is, in fact, what happens in Baltimore. About 45 percent of units renting for \$350 or less (some 13,000 units) are occupied by renters with incomes above the median. As a result, the deficit in affordable units for poor renters is actually about 23,000 units—nearly two poor renters for every affordable rental unit in the city. If poor renters are to have a place to live, they must assume a higher-than-standard housing cost burden. This is undoubtedly the reason 80 percent of low-income Baltimore renters pay more than 30 percent of their income for rent, and 67 percent pay more than 50 percent.⁴⁰ At least some of the roughly 7,500 evictions per year in the mid-1990s must be associated with these serious affordability problems.⁴¹

It is important to note that the magnitude of the affordability problem varies by household. Because many elderly households tend to be small, and the consumption of some necessities (such as medical care) is at least partially covered by government insurance programs, some analysts have argued that the housing affordability standard for the elderly should be increased to 40 percent. The 30 percent housing affordability standard leaves 75 percent of elderly renters in Baltimore with an excessive housing

⁴⁰ These high fractions climb even higher when assisted housing (e.g., public housing, Section 8 vouchers) is excluded. When this is done, nearly all poor renters have an affordability problem.

⁴¹ Mairose (2001); Abell Foundation (2003). There were 7,185 evictions in 2004 (Baltimore City Sheriff's Office 2005).

cost burden. At the more restrictive 40 percent of income standard, 54 percent have an excessive burden. At 50 percent of income, it falls to about 46 percent—still nearly half of all elderly renters. The proportions for households with children are lower but are still a cause for concern. Nearly half of such households exceed the 30 percent standard, and 29 percent pay more than 50 percent of their income for rent. The remaining households (nonelderly households without children) are slightly better placed than their counterparts with children. About 44 percent pay more than 30 percent for rent, and 24 percent pay more than 50 percent.

Housing markets, like labor markets, are assumed to operate on a metropolitan areawide basis. Theory holds that residents have access to a wide range of choices of where to live and work throughout their home region, with tastes, preferences, and skill levels determining the final sorting. That is why the U.S. Department of Housing and Urban Development (HUD) looks at all rental units in each metropolitan area in establishing its “Fair Market Rents,” the minimum rent required for a unit of decent quality. This theory is unlikely to work well for many Baltimore city renters, however. In 1998, the cost of a decent rental unit in the metropolitan area exceeded the 30 percent of income affordability standard for more than half of the city’s renter households—leaving 68 percent of renter households with children, for example, unable to afford a decent unit in the metropolitan area that year.⁴²

These data tell two different stories about the affordability of rental housing in Baltimore. One is that a large proportion of Baltimore city renters spend more than 30 percent or even 50 percent of their incomes on rent. The other is that the median rent in the city is very low by anyone’s standard; if rents were any

⁴² The Fair Market Rent for a two-bedroom unit in 1998 was \$618 in the Baltimore metropolitan area (HUD 1998). Affordability is defined as no more than 30 percent of income devoted to rent. The estimate given in the text assumes the median income adjusted for family size for renter households with children in Baltimore and compares this to the FMR for a two-bedroom unit. The affordability rate is considerably worse assuming a three-bedroom unit.

lower, the physical integrity of the rental stock might be more threatened than it already is. Both stories need to be told together to understand the affordability problem in Baltimore. At its core, the problem is that Baltimore's residents have low incomes, not that its rents are too high. While the city tries to bolster its attractiveness to the middle class and affluent, it also faces the challenge of about 30,000 low-income renters paying more than half their incomes for rent, one-third of whom live in physically substandard housing.

Housing Quality

Every quarter, the Department of Commerce releases a report on the median sales price of single-family homes.⁴³ The report is based on a survey of new home sales across the nation. The fine print notes that the estimate assumes all dwelling units in the sample are of "constant quality." This is not the case in Baltimore (or any place else, for that matter). The poorer the quality, the more dire the low-income rental housing problem.

Although people differ in their judgments of housing quality, they generally agree about what defines safe and healthful living conditions. Housing experts have formalized these standards in housing codes that localities, including Baltimore, adopt and enforce. Code violations are one measure of the physical adequacy of rental units in Baltimore. This approach has two major weaknesses, however. First, the code enforcement data are incomplete and reported at the property—not the dwelling unit—level.⁴⁴ Second, the data do not allow investigation of whether particular types of households are particularly likely to live in poor quality housing.

To fill these gaps, I also look at data from the AHS, which is collected for HUD by the Census Bureau. In 1979, 1991, and 1998, the AHS collected data on a sample of dwelling units in the

⁴³ As in the rest of this paper, the focus here is on the occupied rental stock and excludes abandoned and vacant housing.

⁴⁴ For example, single-family rental units, which comprise about 40 percent of the rental stock, are excluded (author's calculation using 2000 Census).

city of Baltimore and in the surrounding metropolitan area, including detailed information on the physical condition of these dwellings. I use this information to create a composite measure of substandard housing designed to capture specific housing units that do not meet housing codes.⁴⁵

City code and AHS data do not produce exactly the same estimate, but are fairly close and may be viewed as setting a lower and upper bound, respectively. According to the city's Department of Housing and Community Development, roughly 29 percent of occupied multifamily rentals, or 6,500 rental properties, are estimated to be below code.⁴⁶ These 6,500 occupied properties translate into roughly 23,000 units.⁴⁷ Since code inspection focuses almost exclusively on the rental stock, it is safe to assume that most of these properties are rentals. The AHS identifies about 32 percent of rental units as physically substandard, which translates into about 33,000 units. In view of the exclusion of single-unit rentals from the code data, the 32 percent rate is likely closer to the mark. This statistic puts Baltimore among the top three cities of similar size in the proportion of substandard rental units.⁴⁸

The proportion of such units in the city at the end of the 1990s represents a modest decline from the situation two decades earlier. In 1979, about 37 percent of units were reported to be substandard, compared with 32 percent 19 years later. Part of this improvement undoubtedly occurred because some proportion of substandard units had been removed from the stock by 1998. It is impossible to determine the scale of this effect, but two facts are

⁴⁵ As previously noted, these items are also similar to the housing quality standards used in inspections of dwellings receiving subsidies from HUD. The full list of survey items is in footnote 1.

⁴⁶ As noted earlier, the *Consolidated Plan* estimates that 16,000 dwellings are below code and under notice. The source of the discrepancy between the 6,500 figure and the 16,000 figure is unclear.

⁴⁷ Based on the median of 3.5 units per renter-occupied building (calculated from the 2000 Census, SF3, Table H32). This 23,000 unit estimate is similar to the city's *Consolidated Plan* (Baltimore City HCD 2000) estimate of 22,500 units characterized as "habitable but. . . a severe drag on the market" (p. 12).

⁴⁸ Author's calculation using the AHS 1996 and 1998 metro files, and the 1999 national file.

clear. First, the rest of the metropolitan area experienced an *increase* in the proportion of substandard units over this period (from 16 percent in 1979 to 21 percent in 1998) while Baltimore experienced a 5 percentage point decrease. But second, the city ended the decade with a 50 percent higher rate of rental units rated as substandard than the region.⁴⁹

If we want to understand why nearly one-third of the city's rental housing stock is physically substandard, low rents is a logical place to start. If landlords are unable to charge enough rent to cover debt service, taxes, insurance, ongoing maintenance and repair, and a fair return on their investment, the most discretionary of these expenditures will be the most expendable. As one landlord put it, "A furnace is a furnace, and it costs the same whether you put it in a \$600 unit or a \$300 unit." So you don't fix a leaking furnace in a low-rent unit; you wait until there is no heat at all. But in a city where roughly one-third of the occupied rental stock was built before World War II, timely repairs and replacements are essential to maintain properties in good condition.⁵⁰

Renters with children are nearly twice as likely as the other two types of households to live in substandard units—41 percent, compared with 24 percent of elderly renters and 28 percent of other renters. Despite the fact that households with children devote the largest share of income to rent, their higher burden does not buy them units of better—or even standard—quality. Why do these households end up in the worst housing? Since their incomes aren't the lowest, something else must be at work. We know that these households distinguish themselves from the others in several ways—larger family sizes and greater proportions receiving welfare, living in subsidized housing, and being black—so it is logical to ask whether these attributes are correlated with substandard housing.

⁴⁹ Queen Anne's County was not considered part of the Baltimore metropolitan area in the AHS Metropolitan Area data in 1979 but was added in 1998.

⁵⁰ Author's calculation using the 2000 Census. According to the 2000 Census, about 44 percent of the rental stock was built before 1950. Among units counted as vacant at that time by the Census Bureau, nearly 40 percent were built before 1939.

The answer is clearly “yes.” Substandard housing predominates among rental units with five or more rooms, with about 42 percent of this stock falling below standard. Among renters with children, blacks and welfare recipients are disproportionately living in substandard units. The data also indicate that nearly 50 percent of families with children receiving housing assistance live in substandard units, compared with about 15 percent of elderly housing assistance recipients and about one-third of other households (primarily the disabled).⁵¹ As discussed later, roughly 50 percent of units participating in the Section 8 voucher program fall below housing code standards.⁵²

Because nearly three-quarters of all rental units in Baltimore rented for less than \$500 in 1998, substandard units are not heavily concentrated among those below the affordable rent threshold of \$350, or even below the city’s median rent of \$400. There is only a 3 percentage point differential between the proportion of units with rents below the city median classified as substandard (33 percent) and those above the median (30 percent). The disparity is only slightly larger for units below and above the affordability threshold of \$350: 34 versus 30 percent. Even among units renting for \$500 or more, 27 percent do not meet the physical adequacy standard.

Why are so many units renting for more than \$500 not in decidedly better shape, according to our measure of quality? Either the measure of inadequacy is so liberal that it does not discriminate well between higher- and lower-rent units or other characteristics of Baltimore’s rental stock (such as its age or the neighborhoods in which it is concentrated) are more closely correlated with its physical quality than rent.

The liberal measure of inadequacy is certainly part of the explanation. Roughly 34 percent of units—more than 11,000

⁵¹ Although these figures are for 1998, which predates the demolition of thousands of Baltimore’s public housing units that were in the worst shape, there is no evidence that the rate of below-code units is lower today than it was then. Overall, about 28 percent of households with children live in assisted housing, compared with nearly 50 percent of Baltimore elderly renters and slightly more than 25 percent of nonelderly, childless renters.

⁵² Redmond (2004).

dwellings—characterized as substandard using the AHS measure are included in this category solely because they have two or more interior problems, such as peeling paint or cracks in walls or ceilings. Peeling lead-based paint is a health hazard, and some wall or ceiling cracks could indicate serious underlying structural problems, which, if left unattended, could be a hazard. But peeling paint or wall cracks can also be minor maintenance issues that do not require huge investments to correct.

Similar proportions of units with rents above and below the median are considered substandard solely because of interior problems, and there is no way of knowing whether these problems signify more serious underlying structural problems in low-rent units versus temporarily deferred minor maintenance in higher-rent units. While maintenance may be deferred for longer periods in low-rent units, ultimately resulting in a more serious problem, the AHS data cannot be used to tease out this possibility. What we *do* know is that rent level discriminates quite well between units that are, or are not, *severely* inadequate.⁵³ Affordable units have twice the rate of severe deficiencies as unaffordable units, though the proportions are, not surprisingly, only fractions of the broader substandard measures: 8 percent compared with 4 percent, respectively.

These same data show, of course, that the majority of low-rent units (67 percent) are physically adequate. This rate represents about a 5 percentage point increase in the proportion of physically sound units since the 1979 Baltimore AHS.⁵⁴ What accounts for the physical adequacy of this segment of the low-rent stock? To answer this question, we need such information as whether the properties are owned debt free and are well capitalized with reserve funds for repairs and replacements, how

⁵³ This more stringent measure is used by HUD in its calculation of “worst case needs” referred to at the outset. This measure requires a serious plumbing, heating, upkeep, hallway, or electrical inadequacy. In the past, HUD periodically submitted a report on worst case needs to Congress (e.g., Nelson et al. 2000).

⁵⁴ As previously noted, these data predate the demolition of thousands of seriously deteriorated public housing units. Therefore, the removal of these units from the stock cannot explain the increase in the fraction of the stock in adequate condition.

well the properties are managed, whether the tenants pay their rents on time and keep up their units, the age of the buildings, the nature of their construction materials, and whether the neighborhoods are free from vandalism and other problems.⁵⁵

Only two of these factors can be examined with available data: building age and neighborhood problems. Neighborhood does seem important, as the next section shows. Age does not seem to be a major factor. There is little relationship between the age of the rental stock in Baltimore and its physical quality, primarily because the *entire* stock is so old. In the stock as a whole, substandard units are only two years older, on average, than physically adequate units: 53 years old compared with 51 years old. This pattern persists across much of the rent distribution (except for the high-rent segment). Thus, even among units renting for more than \$500 a month, there is very little age difference between physically adequate and substandard units. Because such a large fraction of Baltimore's rental stock is very old by anyone's standard, an additional two or three years of age is unlikely to make much difference in the risk of maintenance or structural problems. (For the minority of units with rents above \$600 a month, however, substandard units are 10 years older, on average, than standard units.)

Neighborhood Quality

I rely on the AHS for indicators of neighborhood problems. Respondents to this survey are asked to report the presence of nine problem conditions in their neighborhoods.⁵⁶ The differences

⁵⁵ Some evidence presented later in the discussion of the Section 8 voucher program suggests that the 67 percent figure overestimates the fraction of the lower-rent stock (using HUD's definition) in sound condition, and that the correct estimate is roughly 52 percent. Whatever the figure, however, how landlords can maintain their low-rent properties in sound condition is worth understanding.

⁵⁶ The nine conditions are noise, litter, poor public services, undesirable commercial or industrial land uses, problem neighbors, traffic, crime, abandoned buildings, and bars on windows. For each of the first seven items, respondents were asked if the condition was bothersome. For the remaining two items, we tabulated whether the condition existed.

between adequate and substandard low-rent units⁵⁷ in better versus worse neighborhoods are large. For example, 57 percent of substandard units with rents above the \$400 median have at least one neighborhood problem, compared with 86 percent of substandard units with rents below the median—a 50 percent higher rate. The disparities are similar in magnitude if we concentrate solely on crime. For example, 40 percent of substandard units renting for less than the median are reported to have crime problems, compared with 26 percent of substandard units with rents above the median.

Unlike the relationship between building age and physical inadequacies, where we can safely assume that additional years of wear and tear result in physical deterioration (and not the reverse), whether physical deterioration precedes neighborhood deterioration or the other way around is unclear. But determining which causes which will not change the high proportion of neighborhood problems across Baltimore's rental stock, even among higher-priced units. For example, 56 percent of units renting for more than \$500 were reported to have at least one neighborhood problem, a rate that moderates only slightly at higher rent levels.

Because substandard housing tends to be located in decaying neighborhoods and low-income renters with children are most likely to live in substandard units, they also report the most problems in their neighborhoods. Roughly one-fifth report three or more neighborhood problems, a rate much greater than that of the low-income elderly who rent, though only slightly more than that of other low-income renters. The most prevalent complaint by far is about crime. More than half of low-income renters with children report crime in their neighborhood.

Rental Housing Owners

Decennial census data, the periodic AHS and, to a lesser extent, administrative records can be used to profile Baltimore city renters and rental properties. But neither these nor any other sources provide readily accessible information about the owners

⁵⁷ Those with rents below the median for the city of \$400 according to the 1998 AHS.

of rental properties. The last time an independent researcher surveyed a systematic sample of rental property owners in Baltimore was more than 30 years ago.⁵⁸ The Stegman study found that most of the city's private rental stock (60 percent) was held by small owners (fewer than 25 units), 15 percent by owners with 25–100 units, and 25 percent by owners whose property portfolios included 100 units or more.

Recent data suggest that small-scale ownership may have increased dramatically in the past 30 years. Of the 23,512 rental property owners registered with the city's Department of Housing and Community Development—as required—20,738 (88 percent) of them own fewer than five dwelling units.⁵⁹ Because these registered owners include an estimated 80–85 percent of all rental property owners, they provide a reasonably good representation of rental property owners in Baltimore.⁶⁰ These estimates of growing dominance of small owners are consistent with both perceptions of key HCD staff and what economic theory would predict given the soft rental market.

The preponderance of small holdings is significant mainly for what it implies about property management and, ultimately, the integrity of the rental stock. A small scale of operations is typically associated with less expertise in property management and greater likelihood that real estate management and investment is a part-time avocation. The type of structures in the low-rent market, where 40–50 percent of the rentals are in single-unit attached (rowhouse) or detached structures and 50–60 percent are in structures with fewer than five units,⁶¹ is itself an obstacle to operational efficiency. Small-scale owners are further disadvantaged by being, by definition, excluded from economies of scale in tenant and property management. And small-scale operations are likely

⁵⁸ Stegman (1972).

⁵⁹ Faleti (2005).

⁶⁰ Mullaney (2005). Most non-registrants are likely to be small-scale owners because the city's recent efforts to expand the registrant pool focused on owners of three or more dwelling units.

⁶¹ Author's calculation from the AHS, 1998 metropolitan area file, and 2000 Census. The AHS provides a higher estimate for single structures than the Census.

less well-capitalized than large ones, with small if any reserves for unanticipated expenses. It is therefore not surprising that Stegman's research on Baltimore rental property owners in the 1970s found a correlation between small-scale ownership; poorly maintained, physically deteriorated properties; and abandonment.⁶² National data concur in suggesting that small properties are the least profitable, with average total costs slightly lower than rent receipts.⁶³

Federally Assisted Housing

Federally assisted housing (public housing, Section 8 vouchers, and privately owned but federally subsidized housing) currently constitutes about 20 percent of the city's rental stock—the highest rate among cities of 500,000 or more residents.⁶⁴ The status of this assisted stock should, therefore, significantly affect the profile of the total stock of rental housing, and particularly the low-rent stock. Since assisted housing is statutorily required to meet affordability and housing quality standards, its large presence should improve the stock's profile on these two criteria. And since the large majority of assisted housing tenants can be assumed to be at, or near, the affordability criterion of 30 percent, the very high fraction of poor renters in Baltimore who exceed this rent burden—80 percent—would almost certainly be even higher if we excluded those who live in public and Section 8 voucher housing.

The situation is less clear for the physical adequacy of rental units. According to administrative data on inspections of units for the Section 8 voucher program, about 50 percent of units failed the initial inspection in the 2002–04 period.⁶⁵ Instead of lowering the

⁶² Stegman (1972).

⁶³ Emrath (1997).

⁶⁴ Author's calculation based on the 2000 Census, Redmond (2004), Baltimore City HCD (2000, 2005b), and *Thompson v. HUD* (2005). This estimate includes roughly 11,000 Section 8 units (vouchers and project-based Section 8) in use, and about 13,000 public housing units. It accounts for the demolition of roughly 5,000 public housing units in the past nine years, but does not account for any additions or losses from the private rental stock after 2000.

overall rate of substandard rental units (32 percent), the Section 8 units seem to have *raised* the rate of physical inadequacy in the stock.

Other data confirm this finding, suggesting that even the 50 percent initial inspection failure rate for Section 8 voucher units may be too *low*. In 2001 and 2003, physical deficiencies in Section 8 units were characterized as a persistent problem. In 2001, when audits conducted by the HUD Inspector General reinspected 37 Section 8 units, all but two units failed, the majority for major inadequacies such as structural problems or lead-based paint.⁶⁶ The 2003 follow-up audit found that identified deficiencies were not being dealt with adequately.⁶⁷

It should also be noted that, although the majority of units initially failing the housing quality inspection are reinspected, some are not. Fractions ranging from a few percent to over 33 percent drop out of the Section 8 program. Some of the landlords may be unwilling to deal with the paperwork and bureaucracy of a federal housing program, some may be deterred by the lack of financial resources to bring the unit up to standard,⁶⁸ and some may simply lack faith in Baltimore's voucher program, which has been troubled for many years.

Known Problems in Baltimore's Section 8 Voucher Program.

The 2001 HUD Inspector General's audit characterized Baltimore's Section 8 Voucher Program as "barely functional."⁶⁹ The 2003 audit pronounced the program improved but still gave it a

⁶⁵ Inspection results come from HousingStat, a component of CitiStat, and pertain to both Section 8 vouchers and project-based Section 8 (i.e., dwelling units produced under the now-defunct production programs once funded under Section 8, including new construction, substantial rehabilitation, and moderate rehabilitation). Public housing unit inspections are not tracked by CitiStat. According to Baltimore's 2003 PHAS report, the city's public housing received a 63 percent score (19 out of a possible 30) in 2003 (Kelly 2004).

⁶⁶ HUD, Office of Inspector General (2001).

⁶⁷ Ervin-Jones (2003).

⁶⁸ Unfortunately, it was not possible to tell whether owners of units that fail initial qualifying inspections drop out of the program because of insufficient financial resources, or to identify the Section 8 program covering the rental unit.

⁶⁹ HUD, Office of Inspector General (2001), iv.

failing grade.⁷⁰ Given the troubled history of the program, it is certainly plausible that even landlords with the wherewithal to fix their properties have opted out of participating. One serious problem is lack of timely payments to landlords. A Regional Fair Housing Working Group meeting in 2002 highlighted this problem, concluding that “when payments are delayed, the one reason to participate disappears.”⁷¹

Beyond delayed rental payments, Baltimore’s voucher program has been beset by other management failures. Perhaps the most dramatic is that, between 1997 and 2000, the program failed to spend—and therefore forfeited—\$124 million in federal funds, which could have leased about 2,500 units.⁷² The Greater Baltimore Committee’s 2000 report cited loss of faith in the program by rental property owners;⁷³ Michael Kramer, administrator of the Section 8 program from 2001 to 2004, characterized its reputation with landlords as “terrible.”⁷⁴

In the past few years, steps have been taken to get Section 8 management back on track. But even if the program’s operations improve significantly, owners may still opt out because they simply don’t have the capital to bring their properties up to the required physical adequacy standards. The more than 16,000 Baltimore residents on the waiting list for Section 8 vouchers and the roughly 18,000 on the waiting list for public housing—households looking for physically decent and affordable housing—make a profound statement about the need to resolve the low-end rental housing problem in Baltimore.⁷⁵

⁷⁰ Ervin-Jones (2003).

⁷¹ Regional Fair Housing Working Group Meeting (2002).

⁷² HUD, Office of Inspector General (2001).

⁷³ Greater Baltimore Committee (2000).

⁷⁴ Kramer (2003).

⁷⁵ The Section 8 voucher waiting list was closed in February 2003, except to the disabled (Smith 2005). About one-third of the households on the Section 8 voucher waiting list are estimated to move through the voucher process (e.g., they show up for the initial interview, bring the required documentation, attend the voucher briefing, and have no criminal record) (Smith 2004). A separate waiting list is maintained for public housing, and this list remains open. An unduplicated count of households on one list but not the other was not available. However, households are likely to put themselves on both lists (Thomas 2005), which probably explains why the totals on the two lists are so close.

WHAT ALL THESE NUMBERS TELL US

By most measures, the city's low-end rental housing market is in poor shape. Half of all rental units rent for less than \$400; only 15 percent rent for more than \$600.⁷⁶ Low rents threaten the soundness of the stock and the healthful living conditions for tenants, with one-third of Baltimore city's rental stock physically substandard. But because so many renters are poor, even these low rents are unaffordable to many. There are about two poor renters for every affordable housing unit in the city, and more than 16,000 households on the waiting list for assisted housing. Nearly half of renter households with children are paying more than 30 percent of their income for rent, yet more than two-fifths of them are living in physically inadequate housing nonetheless. And with a city rate of physical deficiencies 50 percent higher than that of the surrounding metropolitan area, Baltimore's low rents are not luring residents from the region to relocate in the city. In 2000, the median age of housing in Baltimore, at more than 50 years old, was 10 years older than the median of central cities generally, and 20 years older than the median age of housing in the United States. Neighborhood problems, such as crime, noise, and abandoned buildings, exist at high rates across the rental stock, but are about twice as prevalent among physically substandard units with rents below the median than among physically substandard higher-rent units. Topping off this mix is the predominance of small-scale owners in the rental market who are highly unlikely to earn positive returns, leaving little or nothing for reserves for capital maintenance and improvement; who often lack the management skills and savvy required to write grant applications for government subsidies; and who do not benefit from the economies of scale in maintenance and repair enjoyed by large operators. Finally, the city's Section 8 voucher program has been in a crisis that is still to be resolved.

We should not forget, of course, that one-third physically substandard rental units implies that as many as two-thirds of rental units—including low-rent units—are physically adequate.

⁷⁶ Author's tabulations from 2000 Census data, SF3.

It is also the case that, among those that are not, up to a third fall below code solely because of interior problems, at least some of which might be inexpensive to repair. An estimated 11,000 rental units are in this group, with somewhere between one-half and two-thirds of these rented by low-income households.⁷⁷

WHAT SHOULD BE DONE?

If these are Baltimore's low-end rental housing market problems, what are the solutions? In the remainder of this paper, I offer possible strategies for addressing the key problems identified by this analysis. Before doing so, however, it is important to reiterate that many of the underlying causes of the problems in Baltimore's low-end rental market transcend this market, *per se*, and are driven by the demographic and socioeconomic dynamics in the city. Bluntly stated, "fixing" this segment of the rental market requires "fixing" whatever is ailing the city. Actions are being taken that promise to help the more general fix. But while these fundamental and long-term corrective actions are being implemented, the needs of roughly 40,000 low-income renters with affordability problems, housing adequacy problems, or both, and 48,000 low-rent units—and especially the subset of nearly 20,000 physically inadequate units—remain. The needs in this segment of the housing market are among the most vivid symbols of the city's distress, and in some cases, threaten the health and safety of residents.

Addressing the Affordability Problem

According to the 1998 AHS data, nearly 80 percent of households with incomes below the median income of renters in Baltimore were paying more than 30 percent of income for

⁷⁷ The lower-bound estimate defines low-income as below the median income of city renters. The upper-bound estimate uses HUD's income cutoff of \$25,000 for a three-person household in the Section 8 voucher program.

rent (roughly 30,000 households), and 30 percent had the additional problem of living in substandard housing (about 11,000 additional households).⁷⁸ Both groups represent immediate and urgent targets for Section 8 vouchers and make a compelling case for the speedy resolution of the Section 8 management crisis. For tenants with affordability problems alone, the voucher program is an excellent fit. And once landlords trust that the housing authority will pay them in full and on time, the program may at least partially serve their needs as well; landlords will be able to charge high enough rents to meet code standards and still make enough to stay in business. For units in physically adequate shape to begin with, the rental stream guaranteed by the HUD voucher should provide the added insurance of adequate capital for ongoing routine maintenance.⁷⁹

Since housing vouchers, like all other forms of housing assistance, are not an entitlement, not all income-eligible households can be served. But any inroad into this aspect of the low-end rental housing problem is a step in the right direction. If the money for an estimated 2,500 unused vouchers in the late 1990s had not been returned to the federal government, for example, the unmet need among low-income renters would have been reduced by roughly 8 percent.⁸⁰

⁷⁸ These proportions remain dramatic using the much higher cutoff for eligibility for HUD's Section 8 voucher program. Assuming a three-person household, the income cutoff rises to \$25,000, the affordability problem pertains to nearly 70 percent of households (about 48,000 renter households) and those living in inadequate units is about 21 percent (roughly 15,000 households).

⁷⁹ In 1998, for example, the FMR for a two-bedroom unit in Baltimore that meets HUD's housing quality standards was \$618. The FMR is based on the 40th percentile of rents for the Baltimore metropolitan area, not just Baltimore city.

⁸⁰ This calculation is based on renters with incomes below the median income who are paying more than 30 percent of income for rent. Different targeting criteria produce different yields. For example, these 2,500 vouchers would have assisted 5 percent of the roughly 50,000 city renters with incomes below the HUD eligibility cutoff who exceed the 30 percent housing cost burden threshold. Based on author's calculations from the AHS, 1998 metropolitan area file and HUD (1998).

The effectiveness of the voucher program for tenants with both affordability and dwelling inadequacy problems is more uncertain. One possibility is for the city to use the sizable differential between the HUD-established fair market rent for the Baltimore metropolitan area housing market and the city's median rent as an incentive, not only to lure rental property owners into the program, but also to promote appropriate property management and perhaps even necessary rehabilitation. Under this scenario, the city would apply to HUD for permission to move from the current system of income-based rents to cost-based rents: that is, rents based on a systematic assessment of how much the property costs to operate efficiently, what it will take to bring it up to code, and how much debt it can support.⁸¹ The spread between the FMR and the median rent would allow landlords to pay for rehabilitation and create a reserve for replacement. It might also be enough to support technical assistance in rehabilitation and property management to small-scale owners—something that does not currently exist, as discussed later.

Even this significant modification of program rules, however, won't provide landlords with *up-front* resources to bring the units up to the program's quality standard, thereby allowing current tenants to remain in their current dwellings. Banks and other lenders are reluctant to base loans to landlords on housing vouchers because voucher users who move take this guaranteed rental stream with them. Nearly half the units applying for participation in Section 8 fail their initial physical inspection.⁸² If the existing unit cannot qualify, then the tenant must search for another rental unit that either meets this standard or can be brought up to standard with the landlord's own resources and within a reasonable period.⁸³ Although both the AHS and city code inspection data suggest that about two-thirds of the city's occupied rental units meet the quality standard, it is impossible

⁸¹ HUD's current proposed changes to the voucher program include eliminating income-based rents (National Housing Conference 2005).

⁸² Redmond (2004). Roughly 66 percent of units with violations that resubmitted for an inspection passed the reinspection within 15 days.

⁸³ The rental unit must also meet HUD FMR guidelines described earlier.

to estimate what fraction of “vacant and available” rental units do so, or the rate at which occupied units meeting the rent and quality guidelines become available.⁸⁴ Such information would assist the city to develop its proposals to HUD for new voucher allocations, and, more fundamentally, to design its strategy for addressing core problems in the city’s low-end rental housing market. The lack of up-front rehab subsidies or a subsidy that can be leveraged with a lender also means that the voucher program alone cannot address the joint problem of affordability and housing quality, which characterizes a sizable portion of the low-end rental stock.

Addressing the Combined Problems of Affordability and Inadequacy with Project-Based Vouchers

The same data indicate that, in 1998, roughly 5,000 units housing renters with incomes below the city’s renter median likely needed only minimal repair. Limiting this rental group further to those paying rents below the median reduces this estimate to roughly 3,000. This is a modest enough target to be feasibly addressed under an existing federal housing initiative, the Project-Based Voucher (PBV) program.⁸⁵

In many respects, the PBV program is ideally suited to the core problems of the Baltimore low-income rental housing market: poor tenants, non-economic rents, undercapitalized owners, the need for minor—not major—rehab in a sizable share of units, and a preponderance of properties containing just a few units. Existing rental properties needing only minimal rehabilitation (less than \$1,000) are eligible, the subsidy can be applied to all apartments in a property with fewer than five rental units,⁸⁶ and the

⁸⁴ Although the CitiStat system tracks various operational features of the Section 8 voucher program, the publicly accessible data cannot be used to calculate the number of units that fail the initial housing quality inspection and whose owners drop out of the program at that point, nor the number of units participating in the program that fail both the annual inspection and reinspection.

⁸⁵ Both the Section 8 voucher program and the project-based voucher program allow the PHA to establish priority groups for assistance.

⁸⁶ Only 25 percent of units in larger properties are eligible.

city may strategically target PBVs to particular population subgroups and neighborhoods.

The PBV program helps both tenants and landlords. It essentially combines features of both the Section 8 voucher program, which provides tenants with subsidies to rent adequate and affordable units in the private market, and the largely defunct project-based subsidy programs, which provided owners with a guaranteed rental stream as long as the property remained in the assisted housing program. As an additional incentive to owners, PBVs offer the “security of a long-term contract” of ten years, not the one-year renewable contracts of Section 8 vouchers, and the possibility of rental payments from the housing authority for up to 60 days when units are vacant.⁸⁷ Also unlike the regular Section 8 voucher program, rental units in the PBV program retain their vouchers even if a tenant decides to move. PBVs, therefore, enable owners to take the subsidy commitment to the bank as effective leverage for a housing rehabilitation loan.⁸⁸

As of July 2004, about 700 PBVs were in use in the city of Baltimore, with another roughly 140 projected.⁸⁹ This number certainly is small relative to need, but there is no financial incentive for the housing authority to project-base more units, since PBVs must be funded out of the regular voucher program, not from additional funding from HUD. The fraction of regular voucher funds that can be allocated to PBVs is currently 20 percent. Another reason for the relatively small number of PBVs is that timing has not been on Baltimore’s side. The emergence of the project-based voucher program coincided with the management problems in the regular Section 8 program, hardly the most propitious time to experiment with a new program model. Last but not least, PBVs have been restricted to census tracts where fewer than 20 percent of residents have incomes below the federal poverty line, based on the most current census data. This has been a significant obstacle in a city where half of all tracts had

⁸⁷ Sard (2002).

⁸⁸ Sard (2003).

⁸⁹ All statistics pertaining to the project-based voucher program in Baltimore were obtained from administrative data (A. Johns 2004).

2000 poverty rates above 20 percent.⁹⁰ This threshold or tipping point was apparently based on the belief that the neighborhood poverty rate is the best marker of neighborhood quality; but it had no empirical basis. A recent analysis of the relationship between neighborhood poverty and multiple measures of neighborhood quality (e.g., residential sales prices, crime rates, school test scores) in 25 neighborhoods in Baltimore found no support for the 20 percent poverty threshold definition of a “good” neighborhood.⁹¹ In March 2004, HUD removed this provision in the newly “Proposed Rule” for the PBV program, which should help Baltimore substantially in targeting its PBVs.⁹²

The problem is that it is common practice for public housing authorities (PHAs) to apply project-basing to special needs populations, including the homeless and the elderly. As one PHA director from California explained: “We target special populations whose needs are not met in the general housing market.”⁹³ Baltimore is adhering to this pattern in its projected PBV units, with all 142 future units designated for special needs groups. But this was not the case previously; roughly 40 percent of current PBVs are being used in general low-end housing.⁹⁴ Why the change? Two reasons come to mind.⁹⁵ First, 2001 regulatory

⁹⁰ HUD allowed PHAs to apply for waivers from the 20 percent rule, but opinions vary about HUD’s receptivity to such applications, particularly from a housing authority that had a poor track record with HUD on the regular voucher program. However, Baltimore has received waivers for three developments, two for the elderly and one accommodating both family and elderly residents (A. Johns 2003).

⁹¹ Johns Hopkins Master’s Program in Public Policy (2004).

⁹² *Federal Register* (2004). Interestingly, although the original program, authorized more than 10 years ago, was apparently not used much across the nation because of cumbersome requirements and inflexibility (Sard 2002), the Housing Authority of Baltimore City (HABC) found the program “easy to implement” (A. Johns 2004). The program was modified in 2000, and in January 2001, existing units requiring little or no rehab became eligible for project-basing. While these modifications were designed to make the program easier to use, HABC reports that it actually has become more difficult (A. Johns 2004).

⁹³ Basgal (2003).

⁹⁴ A. Johns (2004).

⁹⁵ *Ibid.*

changes made it harder to apply PBVs to general low-income housing units. For example, a 25 percent cap was imposed on the fraction of project-based units allowed in a development.⁹⁶ Second, the October 2004 judicial decision known as “Bailey” required HABC to make nearly 3,000 public housing and Section 8 units available to nonelderly handicapped individuals,⁹⁷ and specified that HABC provide at least 500 PBV units for the nonelderly disabled.

Roughly 18 percent of Baltimore’s current PBVs (123 units) are being used in existing housing. Although these units were eligible to undertake up to \$1,000 in rehab after they received the subsidy, none did so (though the largest property, accounting for more than four-fifths of the existing units, undertook some rehab before applying for PBVs). Perhaps owners of units needing minimal rehab have not pursued the PBV program because HABC does not actively market the program, using it instead to fill specifically identified needs.⁹⁸ It would be extremely useful to know the extent to which this profile of current users results from the various programmatic obstacles confronting potential applicants to the program, or from the bureaucratic rigmarole required of anyone seeking funds from a federal government program. The prospects for greater use of project-basing would be rosier if the main problem turns out to be programmatic obstacles (e.g., the threshold neighborhood poverty rate and management of the Section 8 voucher program), since these problems are arguably easier to solve.

There is some evidence to support the programmatic obstacle view. In 1989, the first year of the program, HABC advertised the availability of 100 PBVs, all of which were brought on line within about six months. This first year of the program also predates a succession of regulatory amendments that HUD viewed as

⁹⁶ This particular restriction has never applied to small-scale properties of fewer than five units.

⁹⁷ *U.S. v. Housing Authority of Baltimore City*, Case No. JFM 02-CV-225. Also see *Housing and Development Reporter* (2004).

⁹⁸ One example is former HABC Commissioner Daniel Henson’s interest in building 200 units of transitional housing for formerly homeless women with children (A. Johns 2004).

improvements but HABC viewed as impediments. By contrast, HABC advertised 184 units in December 2003 but projects implementing at most only 46 units, all of which are targeted to special needs.⁹⁹

If the problem is failure to recruit small owners, the prospects of a solution in the near future seems much less likely. The large majority of current owners of project-based units are considered seasoned housing professionals, not the unsophisticated owners of only a few units at the core of the low-end rental housing problem in Baltimore. All else equal,¹⁰⁰ if the PBV program is to “fit” Baltimore’s low-end rental housing problem, the program will need to be marketed to small owners, and either the application process will need to be modified or substantial technical assistance will have to be available.

An overarching issue will continue to be the willingness of banks to accept the guarantee of PBVs as a sufficient incentive to offer rehab loans at affordable rates. This apparently has not been a problem for newly constructed or substantially rehabilitated units.¹⁰¹ But there is essentially no track record of bank response to existing units because so few participate in the program. Here again, assuming no changes to the ownership and management of Mom and Pop rentals, access to loans for minimal capital improvements and technical assistance to secure, use, and repay these loans will be necessary for the program to work in this segment of the rental market. The alternative of targeting some proportion of federal funds the city receives from such programs as the Community Development Block Grant (CDBG) and the HOME Investment Partnerships Program (HOME) to underwrite modest rehab of small rental properties seems unlikely given recent trends in the targeting of these funds to homeownership, as discussed later.¹⁰²

⁹⁹ A. Johns (2004).

¹⁰⁰ For example, no change in the management or ownership of small-scale properties.

¹⁰¹ A. Johns (2004).

¹⁰² The Bush administration’s 2005 proposal to move the CDBG program out of HUD, if successful, would likely eliminate any possibility of using CDBG for rental rehabilitation in the future.

Addressing the Inadequacy Problem

According to the 1998 AHS for Baltimore, roughly 6 percent of rental units are affordable to the below-median-income renter households that occupy them, but do not meet code standards. This translates into about 1,400 housing units. The city's code enforcement program is intended to identify housing code violations. Its lead paint abatement initiative and several federal, state, and other local programs or funding streams support the rehabilitation of rental units. And, of course, all these programs also apply to the additional 5,000 units that pose both affordability and code problems for their low-income residents. This section discusses code enforcement, followed by lead paint abatement and funding sources for rehab.

Code Enforcement. The city's first line of attack on substandard housing is code enforcement.¹⁰³ Currently, only multifamily dwellings are eligible for inspection.¹⁰⁴ Inspections occur roughly every 18–24 months, and the inspector checks the lobby area plus 10 percent of the units. Only when a judgment is made that a structure has a systemic problem are all units inspected.¹⁰⁵ If one or more violations are found, the owner is notified and is given up to 30 days to make repairs.¹⁰⁶ A second inspection is then performed, and if acceptable progress has been made, an extension of up to 30 days may be granted to complete repairs. The property is reinspected at the end of this period, and if it is still in violation with no reasonable expectation that an extension will result in repairs, the violation notice is forwarded to Housing Court, where property owners may be prosecuted.¹⁰⁷

Although code enforcement is an essential part of any strategy to maintain healthful and safe housing conditions, Baltimore's

¹⁰³ This section draws heavily on Braverman (2003), Wells (2004), and Faleti (2004).

¹⁰⁴ Multifamily means two or more dwellings in a property.

¹⁰⁵ Braverman (2003); Dengler (1997).

¹⁰⁶ In the case of major deficiencies, the repair period may be as long as 90 to 180 days.

¹⁰⁷ Citizens Housing and Planning Association (1986).

system is hampered in at least four ways. First, 40–50 percent of the occupied rental units in Baltimore are in one-unit structures, not multifamily buildings.¹⁰⁸ As a result, a significant portion of the rental stock—particularly the low-rent stock—is not inspected at all.¹⁰⁹

Second, the Housing Inspections Division currently employs 96 inspectors, only about half the staff of the late 1970s.¹¹⁰ Although the number of rental units in the city has declined in the past 20 years, that decline is on the order of 28 percent, not 50 percent.¹¹¹ In 2000, roughly 60 percent of the city's rental housing units (about 80,000 dwellings) were in multifamily buildings. The very low staff-to-dwelling-unit ratio of roughly 1:800 undoubtedly drives both the long lag between inspections and the decision to inspect only a small sample of units per multifamily property.

Third, the code enforcement system is caught in a crossfire of opposing ideologies on how to stem the decline of the city's housing stock. One view is that the Housing Inspections Division should more aggressively pursue landlords whose units persistently violate the code. Doing so would serve both the public good, by ensuring safe and healthful living conditions throughout the housing stock, and the interests of property owners, who wish to protect the value of their investments. The opposing view

¹⁰⁸ The range results from a discrepancy between the lower estimate from the 2000 Census and the higher estimate from the 1998 AHS.

¹⁰⁹ Single-unit rentals are inspected on a “complaint-driven basis” (Faleti 2003).

¹¹⁰ Faleti (2004).

¹¹¹ The estimated decline in the rental housing stock excludes subsidized units because they are not inspected by the Department of Housing and Community Development (Wells 2004). The estimate of 28 percent is based on the author's calculations done two ways. The first used the 1979 and 1998 metro files of the AHS, comparing the number of occupied rentals after excluding subsidized units and attempting to account for the undercount of occupied rental units in this database (see appendix A). The second used the 1980 and 2000 census counts of occupied rentals. Because the decennial census does not include measures of whether the unit is subsidized, this calculation used the number of subsidized units from the 1979 and 1998 metro files of the AHS as proxies.

raises concerns about the negative and even perverse consequences of aggressive enforcement, which could force marginal owners to abandon their properties, putting poor renters at risk of homelessness. According to this view, the inspection strategy should focus its scarce resources primarily on violations that jeopardize the health or safety of tenants, and essentially ignore less major problems. The inspection numbers suggest that, whether by design or default, Baltimore subscribes to the second view. Yet, even this targeted strategy overwhelms the staff. In 2004, outstanding code violations, not including abandoned or uninhabitable structures, stood at more than 5,000.¹¹²

Fourth, and not surprisingly in view of the numbers just cited, the Housing Court has been unable to adjudicate cases in a timely manner. Even a perfect inspections system will have little effect unless it is buttressed by effective enforcement. Until the late 1990s, only one part-time judge handled housing cases, and the number of cases on the daily docket was capped.¹¹³ Cases were often postponed and sometimes never resolved. In 1997, a coalition of landlords, housing officials, and community activists asked the Maryland General Assembly to increase the number of judges and expand the powers of the Housing Court. This Substandard Housing Task Force hoped to create a new Housing Court staffed by two full-time judges who would handle both criminal complaints and civil disputes between landlords and tenants. The Task Force also proposed an amendment to Baltimore's charter to make housing code violations subject to civil penalties as well as criminal fines, thereby allowing the city to resolve some code violations through an administrative board rather than taking everything to court. Landlords would be restricted in their ability to appeal fines and other punishments, adding teeth to the Court's rulings.¹¹⁴

Although this proposed legislation failed, several improvements have been implemented. One housing court judge hears code enforcement cases four mornings a week (in addition to

¹¹² Faleti (2004). Some properties may have more than one violation but it is impossible to estimate how many from the available data.

¹¹³ Dengler (1997).

¹¹⁴ *Ibid.*

roughly 100 sanitation violations), and the cap on the number of code violation cases on the daily docket has been lifted. Presumably because of the resulting case burden, the city added nine attorneys and five paralegals to the three prosecutors already working in Housing Court.¹¹⁵ More cases are being heard (estimated at 24 a day), and delays now stand at about six weeks for criminal cases.¹¹⁶ The most recent change in the Inspections Division is development of a computerized code violations data system, with hoped-for efficiencies in both targeting delinquent properties and prosecuting offending owners.¹¹⁷

Quality computerized data systems have proven extremely effective in other arenas, such as policing. But even the most effective system for detecting code violations will not result in safe and decent rental units if owners cannot afford to bring their properties into compliance.¹¹⁸ Not all units will be salvageable. Some may have outlived their useful lives. But others may need upgrades that, even if modest, are unaffordable because rents are too low and the owner is undercapitalized.

Code enforcement is currently connected to the judicial system at the back end of the process. It also needs to be connected to a system of loans, grants, and technical assistance at the front end to help owners bring their properties up to code. HUD's Section 312 program, in effect from 1966 until the early 1990s,¹¹⁹ was such a program, providing low-interest direct loans to owners to bring their properties up to local housing and building codes.¹²⁰ Funds were distributed mainly based on population size and indicators of neighborhood distress. Eligibility rules for a new front-end Baltimore code

¹¹⁵ Wells (2004).

¹¹⁶ Wells (2000, 2004); Braverman (2001); Duval (1997). In FY 2005, \$2.4 million was allocated to code enforcement activities, representing a 25 percent increase in real terms from FY 2001 (Baltimore City HCD 2000, 2004).

¹¹⁷ Braverman (2003); Baltimore City HCD (n.d., 88).

¹¹⁸ The availability of financial assistance has been identified as the key to successful code enforcement in studies of the concentrated code enforcement program that existed in the 1970s (e.g., Taylor 1979; Burby et al. 1980).

¹¹⁹ Pascal and Williams (1980). Note that Congress stopped appropriating funds for the 312 program in FY 1981 (HUD, Office of Policy Development and Research 1984, p.1.4, footnote 4).

¹²⁰ HUD, Office of Policy Development and Research (1978).

violation correction program might reasonably include the viability of the property and neighborhood, and perhaps even the capabilities of the owner.¹²¹ Although this system would require additional outlays, it should lower the costs of the back-end judicial actions, if effective. The city's first step in this direction might be a demonstration program to test how best to design and administer such a system and to estimate its costs and benefits. This demonstration might target particular neighborhoods, akin to the concentrated code enforcement program implemented in many cities in the 1970s with HUD funding. Such geographic targeting could follow the City Planning Department's neighborhood typology, focusing on neighborhoods on the edge—but not over it—that have not (yet) been “discovered” by the private market, but offer viable housing to low-income Baltimoreans.¹²² Efficiencies might be gained by integrating this front end system with other programs and funding streams available for rental rehabilitation, such as the lead paint abatement program.

Lead Paint Abatement. The presence of lead-based paint, a code violation in itself, pervades the entire Baltimore rental stock, not just low-rent units. In 2000, HCD estimated that 75 percent of rental units in Baltimore contained lead paint.¹²³ Lead paint is a citywide problem not only because of the vintage of much of the housing stock but also because the wealthy often preferred lead-based paint for its better gloss and finish. The precarious equation of poor renters, low rents, and part-time, small-scale owners was thrown seriously out of balance by the actual, or threatened, filing of lead paint liability lawsuits beginning in the late 1970s.¹²⁴ By 1992, 1,400 individual lawsuits had been filed in Baltimore City Circuit Court. By 1995, Baltimore landlords collectively faced lawsuits seeking roughly \$1 billion in damages

¹²¹ If the technical assistance component of the program were designed to help the full range of owners—from most to least sophisticated—those considered least capable in the initial years would eventually become eligible.

¹²² Geographic targeting is also adopted by the police department in its “hot spots” program, which concentrates resources on high crime activity areas.

¹²³ Baltimore City HCD (2000), 61.

¹²⁴ Norton (1998).

for lead paint poisoning.¹²⁵ Some city housing officials believed that the potential liability from lead paint claims exceeded the total assessed value of all rental properties in Baltimore.¹²⁶

After years of contentious debate, state legislation was passed in 1994 establishing a protocol for lead abatement, and capping landlords' liability at \$17,000 in cases where the correct protocol for lead paint abatement had been followed.¹²⁷ The legislation, however, did not absolve owners from liability, nor did it create a source of funds to cover abatement activities or court costs. Abatement costs can be substantial, particularly if the abatement work occurs when the unit is occupied, since the protocol requires that tenants be relocated until the work is completed.

In late 1993, the city began to receive federal funds for lead remediation activities from HUD's then-new Office of Lead Hazard Control.¹²⁸ HUD guidelines call for hazard "control" and lead "remediation," dismissing full abatement as too costly and impractical. The \$3 million grant was, therefore, expected to address 400–500 units. In 1994, the city established the Lead Abatement Action Project to funnel all funding for lead remediation through this one-stop shop.¹²⁹

As shown in table 1, during the 1999–2003 period, nearly \$10 million, received from a combination of federal and state sources, was spent on lead abatement activities.¹³⁰ Of this total, about \$1.3 million was targeted to properties in the city's Empowerment Zones.¹³¹ To be eligible for federal or state funds, the property owner's income must be below 80 percent of the metropolitan

¹²⁵ Baltimore City HCD (1995).

¹²⁶ Wheeler (1993).

¹²⁷ There is a \$7,500 cap for uncovered medical expenses and \$9,500 for rent and relocation costs. Owners of dwelling units built before 1950 must comply with the law, while the law is an option for owners of units built between 1950 and 1978 (Coalition to End Childhood Lead Poisoning n.d.).

¹²⁸ Norton (2005).

¹²⁹ H. Johns (2004).

¹³⁰ This figure includes construction costs and excludes administrative costs (Spanier 2005).

¹³¹ Federal sources include HUD and Empowerment Zone funding. State sources include the State Lead Hazard Reduction Grant and Loan Program, the Maryland Housing Rehabilitation Program, and CDBG.

TABLE 1. Expenditures on Lead Abatement in Calendar Years 1999–2003 (dollars)

<i>Funding source</i>	<i>Total</i>	<i>Rental</i>
Federal		
HUD	1,753,072	1,150,935
Empowerment Zone	1,345,009	883,032
Total federal	3,098,081	2,033,967
State		
Grants	4,701,979	2,508,431
Lead Hazard Reduction Grant and Loan Program (LHRGLP)	48,321	28,312
Maryland Housing Rehabilitation Program	1,044,625	612,070
Community Development Block Grant	650,897	381,376
Total state	6,445,822	3,530,189
Total federal + state	\$9,543,903	\$5,564,156

Source: H. Johns (2004).

Notes: Separate data provided directly by the state Department of Housing and Community Development (DHCD) report a total of nearly \$11,000,000 allocated to the city over the same period for lead abatement programs (Greiner 2005). The state's data included funding from the Baltimore City Abatement Project, Baltimore City Lead Initiative, and RELAP (an older name for LHRGLP). The fraction pertaining to rental properties was unavailable. Potential sources of the large discrepancy between the city and state totals include city data reflecting only construction costs of completed projects, differences between what was dispersed by the state (DHCD data) and what was spent by the city (city-provided data), lags in reporting, and different programs reported.

area median income, and 80 percent of owners meet this criterion.¹³² Additionally, to qualify for federal funds, residents in these units must be low income.¹³³

This \$10 million remediated a total of 644 housing units. Of these, 479 were rental units, 293 of them in small-scale properties and 135 of them occupied. Since the inception of all lead paint abatement funding streams to Baltimore, 300 occupied rental units have been abated.¹³⁴

This level of productivity is clearly out of scale with the enormity of the lead paint challenge. While inadequate funding is a fundamental constraint, there may be ways to deploy the existing resources more efficiently and effectively. First, according to the Baltimore nonprofit the Coalition to End Childhood Lead Poisoning, efficiencies could be gained by making dwellings lead “safe” instead of lead “free,” and from privatizing some of the lead

¹³² H. Johns (2004); Norton (2005).

¹³³ Norton (2005). Qualifying landlords are able to receive lead abatement funds as grants if the dwelling unit is occupied by a household with a child under 6 years old, and as loans otherwise (Stewart 2005).

¹³⁴ H. Johns (2004).

work.¹³⁵ Second, abating twice as many vacant rental units as occupied rentals is not the most efficient way to assist renter households currently living in unsafe housing conditions (344 vacant versus 135 occupied during the 1999–2003 time frame).¹³⁶ Third, since households currently occupying lead-contaminated dwellings must be relocated during the abatement process, increasing the number of relocation units to which these households could move temporarily would allow a greater number of occupied units to be improved. The Coalition to End Childhood Lead Poisoning also argues that the city’s process is unnecessarily slow, well exceeding the 90-day average the Coalition achieves in its work.¹³⁷ Perhaps most important, efficiencies would likely be gained if lead abatement, like code enforcement, were integrated into a comprehensive approach for rental housing rehabilitation.

Rental Housing Rehabilitation Programs

As shown in table 2, the city receives millions of dollars in housing funds from the federal and state governments each year (nearly \$700 million between 1999 and 2003) and adds millions more from city sources (more than \$90 million in the same five-year time period). Yet only about 14 percent is devoted to the rehabilitation of low-income rental housing, essentially none of which reaches the small-scale structures where most low-income renters live. Table 3 shows that during 1999–2003,¹³⁸ roughly 3,500 rental units in Baltimore were rehabilitated at a cost of about \$95 million. Frequently, combinations of sources were required for each rehabilitation project.¹³⁹ Excluding special needs

¹³⁵ Norton (2005); Stewart (2005).

¹³⁶ H. Johns (2004).

¹³⁷ Norton (2005).

¹³⁸ Funding data are not reported for consistent time periods for the different programs, with a mix of calendar year, fiscal year, and city “program” year. The program year runs from July 1 to June 30 but lags behind the fiscal year by one, so fiscal year 2004 corresponds to program year 2003 (Matthews 2004). Most program data pertain to calendar years 1999–2003.

¹³⁹ This discussion applies to the private rental market and, thus, excludes such subsidized housing initiatives as the HOPE VI public housing redevelopment program.

TABLE 2. Rental Rehabilitation in Baltimore, 1999–2003: Expenditures by Program (dollars)

<i>Funding source^a</i>	<i>Expenditures on:</i>		
	<i>All housing activities</i>	<i>Rental rehabilitation</i>	<i>% rental rehabilitation</i>
Federal			
HOME ^b	49,549,643	14,401,678	29
Tax-exempt bond	14,031,447	5,355,670	38
Low-Income Housing Tax Credit (LIHTC)	3,213,652	1,933,232	60
Lead abatement ^c	3,098,081	2,033,967	66
Affordable Housing Program (AHP) ^d	4,941,364	2,152,405	44
<i>Federal housing funds in city capital budget:</i>			
CDBG capital projects ^e	33,512,899	NA	NA
Section 108 loan guarantees	34,978,662	NA	NA
UDAG repayment	435,169	NA	NA
Neighborhood Initiative Grant	152,230	NA	NA
Sandtown-Winchester Economic Development Initiative Grant	1,505,197	NA	NA
Rental Rehabilitation Program ^f	1,107,345	1,107,345	100
Up-front grant	2,200,054	NA	NA
HOPWA	1,870,646	NA	NA
<i>Federal housing funds in city operating budget:^g</i>			
Construction and building inspection	4,531,893	NA	NA
Services for the homeless	82,548,638	NA	NA
Finance and development	8,960,420	NA	NA
Neighborhood services	10,450,133	NA	NA
Special housing grants	2,638,594	NA	NA
Community support projects	24,644,131	NA	NA
Total federal	284,370,197	26,984,297	09
State			
Maryland Affordable Housing Trust (MAHT)	4,876,600	1,260,080	26
Rental Housing Production Program (RHPP)	17,524,822	11,319,822	65
Elderly Rental Housing Production (ERHP)	9,466,537	1,497,763	16
Multifamily Bond Program—Tax Exempt	49,829,983	38,978,999	78
Partnership Rental Housing Program (PRHP)	21,000,890	7,560,890	36
Transitional Housing Grant (THG) ^h	5,818,439	3,065,389	53
Maryland Housing Rehabilitation Program—Single Family (MHRP-SF) ⁱ	3,821,816	661,771	17
Office Space Conversion (OSC) ^j	4,900,000	NA	NA
Community Legacy ^k	1,368,600	NA	NA
Rental Allowance Program (RAP)	2,698,624	NA	NA
Homeownership programs	167,722,119	NA	NA
Special loan programs	489,784	NA	NA
Lead abatement ^l	4,750,300	3,530,189	74
<i>State housing funds in city operating budget:^g</i>			
Services for the homeless	14,916,118	NA	NA
Finance and development	615,525	NA	NA
Neighborhood services	267,924	NA	NA
Weatherization	4,866,440	NA	NA
Total state	314,934,522	67,874,903	22

<i>Funding source^a</i>	<i>Expenditures on:</i>		
	<i>All housing activities</i>	<i>Rental rehabilitation</i>	<i>% rental rehabilitation</i>
City^m			
Bonds ⁿ	26,333,359	758,500	03
City general funds for capital projects	4,238,008	NA	NA
Other city funds for capital projects	6,420,990	NA	NA
Mayor and city council funds for capital projects	3,600	NA	NA
<i>City operating budget funds for housing:^g</i>			
Construction and building inspection	18,370,667	NA	NA
Services for the homeless	1,145,485	NA	NA
Finance and development	3,760,275	NA	NA
Neighborhood services	28,741,465	NA	NA
Community support projects	1,643,845	NA	NA
Total city	90,657,694	758,500	01
TOTAL	\$689,962,412	\$95,617,700	14
Average cost per unit^o		\$27,386	

NA = not applicable

Sources: Albro (2004); Allen (2005); Baumbach (2004); Driscoll (2004); Goetzinger (2004a, 2004b); Greiner (2004a, 2004b, 2004c, 2005); Grimes (2004); Gross (2003); Janes (2004, 2005); H. Johns (2004); Maryland Department of Housing and Community Development (2004); Matthews (2003b, 2004); Rafferty (2004).

Notes: Expenditures exclude capital and operating subsidies for public housing, and rental subsidies for Section 8 vouchers and privately owned, publicly subsidized housing. See appendix D for the methodology used to develop these estimates, appendix E for a description of state programs, and appendix F for a description of federal programs.

^a MAHT, Community Legacy, and city capital and operating funds data pertain to fiscal year. HOME, CDBG, and city bond data pertain to city program year, and all other programs pertain to calendar year. MHRP expenditures for all housing activities also pertain to calendar year, resulting in some misalignment of time frame with MHRP rental rehabilitation expenditures, which pertain to fiscal year. A city program year runs July 1 to June 30 and lags behind the fiscal year by one digit (e.g., fiscal year 2004 corresponds to program year 2003).

^b Time period for HOME figures is 1998–2003.

^c Empowerment Zone and other HUD funding. Individual project data were not available. Estimate based on aggregate expenditure and unit count data.

^d Administered by the Federal Home Loan Bank of Atlanta.

^e Denominator includes funds for demolition of abandoned houses. Does not include 108 principal and interest payments made with CDBG funds, which totaled nearly \$26 million in fiscal years 1999–2003.

^f Funds from old loans being paid off.

^g Approximations based on best effort to exclude non-housing expenditures in these categories.

^h Includes one project that funded “beds” rather than “units.”

ⁱ Individual project data were not available. Estimate based on annual aggregates of expenditures and unit counts.

^j Market-rate units.

^k Data reflect 2002–03 (program began in 2002).

^l Data are from city records and include construction costs of completed projects only. (See note to table 1 for more detail.)

^m DHCD staff determined the amount of housing-related funding for each of the first four entries.

ⁿ Time period is 1998–2003 for rental rehabilitation expenditures. Expenditures in the first column of numbers include Second Residential Energy Financing bonds and Community Development bonds.

^o Based on unduplicated unit count from table 3. Excludes federal Rental Rehabilitation Program funds because unit count information for these funds was not available and is therefore not included in the total from table 3.

TABLE 3. Number of Rental Units Rehabilitated in Baltimore, 1999–2003

<i>Funding source</i>	<i>Units^a</i>
HOME or city bonds only	257
LIHTC or tax-exempt bond only	204
Lead abatement only ^b	432
AHP only	196
State funds only ^c	179
MAHT only	346
Overlap ^d	<u>1,837</u>
Total unduplicated unit count	3,451

Sources: Albro (2004); Baumback (2004); Driscoll (2004); Goetzinger (2004a, 2004b); Greiner (2004a, 2004b, 2004c, 2005); Grimes (2004); Gross (2003); Janes (2004); H. Johns (2004); Maryland Department of Housing and Community Development (2004); Matthews (2003b, 2004); Rafferty (2004).

Notes: Expenditures exclude capital and operating subsidies for public housing and rental subsidies for Section 8 vouchers and privately owned, publicly subsidized housing. See appendix D for methodology used to develop these estimates, appendix E for a description of state programs, and appendix F for a description of federal programs.

^aBest estimate of the unduplicated count using existing data sources.

^bUnit counts for lead abatement based on aggregate data and may, therefore, include units also affected by other programs.

^cIncludes RHPP, EHRP, MBP-TE, PRHP, THG, and MHRP. MHRP based on aggregate data and may contain units also receiving assistance from other programs.

^dOverlaps existed among HOME, state programs, MAHT, LIHTC, tax-exempt bond, and AHP.

housing (e.g., persons with serious mental illness, the homeless) reduces the number of units to about 2,500 and the cost to about \$68 million (tables 4 and 5).

Federal and state program requirements and local decisions have increasingly targeted housing dollars to homeownership. The portion available for rental housing is primarily applicable to sophisticated developers of large multifamily properties, not the small-scale rental housing owner that typifies the Baltimore low-end rental market. In fact, most banks define multifamily properties as those with five or more dwelling units, and consider smaller properties single-family.¹⁴⁰ For example, all the rental rehab activity under the two largest state programs from 1999 to 2003 occurred exclusively in properties with more than 10 units, most in properties with many more units than that.¹⁴¹ In the HOME program, the average number of units in such properties is 43 (the median is 29). The federal and state programs are look-

¹⁴⁰ Narasimhan (2001); Herbert (2001).

¹⁴¹ The two programs are the Multifamily Bond Program–Tax Exempt (MBP-TE) and the Rental Housing Production Program (RHPP). Although the Partnership Rental Housing Program provided more funding than the RHPP, it is not available to private owners.

TABLE 4. Rental Rehabilitation in Baltimore, 1999–2003: Expenditures by Program, Excluding Special Populations (dollars)

<i>Funding source^a</i>	<i>Rental rehabilitation</i>
Federal	
HOME ^b	9,783,510
Low-Income Housing Tax Credit (LIHTC)	3,301,421
Tax-exempt bond	1,933,232
Lead abatement ^c	2,033,967
Affordable Housing Program (AHP) ^d	1,567,405
Total federal	18,619,535
State	
Maryland Affordable Housing Trust (MAHT)	522,850
Rental Housing Production Program (RHPP)	9,464,724
Multifamily Bond Program—Tax Exempt (MBP-TE)	27,362,001
Partnership Rental Housing Program (PRHP)	7,560,890
Maryland Housing Rehabilitation Program—Single Family (MHRP-SF) ^e	661,771
Lead abatement ^f	3,530,189
Total state	49,102,425
City	
Bonds ^g	758,500
Total city	758,500
TOTAL	\$68,480,460
Average cost per unit^h	\$27,963

Sources: Albro (2004); Baumbach (2004); Driscoll (2004); Goetzinger (2004a, 2004b); Greiner (2004a, 2004b, 2004c, 2005); Grimes (2004); Gross (2003); Janes (2004); H. Johns (2004); Maryland Department of Housing and Community Development (2004); Matthews (2003b, 2004); Rafferty (2004).

Notes: Expenditures exclude capital and operating subsidies for public housing, and rental subsidies for Section 8 vouchers and privately owned, publicly subsidized housing. See appendix D for the methodology used to develop these estimates, appendix E for a description of state programs, and appendix F for a description of federal programs. Special populations include the elderly, mentally ill, disabled, and homeless.

^a MAHT, Community Legacy, and city capital and operating funds data pertain to fiscal year. HOME, CDBG, and city bond data pertain to city program year, and all other programs pertain to calendar year. MHRP expenditures for all housing activities also pertain to calendar year, resulting in some misalignment of time frame with MHRP rental rehabilitation expenditures, which pertain to fiscal year. A city program year runs July 1 to June 30 and lags behind the fiscal year by one digit (e.g., fiscal year 2004 corresponds to program year 2003).

^b Time period for HOME figures is 1998–2003.

^c Empowerment Zone and other HUD funding. Individual project data were not available. Estimate based on aggregate expenditure and unit count data.

^d Administered by the Federal Home Loan Bank of Atlanta.

^e Individual project data were not available. Estimate based on annual aggregates of expenditures and unit counts.

^f Data are from city records and include construction costs of completed projects only. (See note to table 1 for more detail.)

^g Time period for bonds is 1998–2003.

^h Based on unduplicated unit count from table 5.

ing for seasoned, large-scale developers and managers who are savvy about complex program rules and regulations, need little hand-holding, and are good bets for delivering on their loan (and in rare cases, grant) applications. There are also economies of scale in targeting larger properties.

TABLE 5. Number of Rental Units Rehabilitated in Baltimore, 1999–2003, Excluding Special Populations

<i>Funding source</i>	<i>Units^a</i>
HOME or city bonds only	257
LIHTC or tax-exempt bond only	204
Lead abatement only ^b	432
AHP only	196
State funds only ^c	49
MAHT only	143
Overlap ^d	<u>1,168</u>
Total unduplicated unit count	2,449

Sources: Albro (2004); Baumbach (2004); Driscoll (2004); Goetzinger (2004a, 2004b); Greiner (2004a, 2004b, 2004c, 2005); Grimes (2004); Gross (2003); Janes (2004); H. Johns (2004); Maryland Department of Housing and Community Development (2004); Matthews (2003b, 2004); Rafferty (2004).

Notes: Expenditures exclude capital and operating subsidies for public housing and rental subsidies for Section 8 vouchers and privately owned, publicly subsidized housing. See appendix D for methodology used to develop these estimates, appendix E for a description of state programs, and appendix F for a description of federal programs. Special populations include the elderly, mentally ill, disabled, and homeless.

^a Best estimate of the unduplicated count using existing data sources.

^b Unit counts for lead abatement based on aggregate data and may, therefore, include units also affected by other programs.

^c Includes RHPP, MBP-TE, PRHP, and MHRP. MHRP based on aggregate data and may contain units also receiving assistance from other programs.

^d Overlaps existed among HOME, state programs, MAHT, LIHTC, tax-exempt bond, and AHP.

Taken at face value, the number of rental units receiving rental rehabilitation assistance from government sources is sobering. At this scale of rehabilitation activity, it would take about four decades to upgrade the more than 30,000 substandard rental units in the city, as estimated with the 1998 AHS data. But even this approximation may be overly optimistic, because some of the rental units rehabbed with government dollars between 1999 and 2003 may not have been in substandard condition at the outset, while others may not have been part of the occupied rental housing stock (and therefore not included in the 30,000 estimated substandard units). An educated guess is that only about 1 percent of the rehabbed units are in occupied rental properties with fewer than five units,¹⁴² which account for the lion's share (about four-fifths) of the substandard rental stock in the city and an even

¹⁴² Author's calculation based on data for three state programs—the Maryland Housing Rehabilitation Program, the Maryland Affordable Housing Trust, and the Transitional Housing Grant—as well as city bond-financed activity (Greiner 2004a, 2004b; Baumbach 2004; Rafferty 2004).

higher proportion of substandard rentals with below-median or affordable rents. Even if these rehabbed units came entirely from the low-rent stock, it would still take about 25 years to fix all of them at this pace.¹⁴³

It is doubtful, however, that even the few small properties that received rehabilitation funding are representative of the low-end stock, or that their owners are typical of the Baltimore low-end rental unit owner. The cost of rehabilitation activity in small properties averaged more than \$20,000 per unit, exceeding the rehab cost of the units in the larger properties, and probably exceeding the replacement value of many rental units in the low-end stock. And as noted, the majority of these rental rehab projects involved multiple financing sources (e.g., the federal HOME program, bank loans, city bond funds, CDBG) and orchestrating multiple applications to each source.¹⁴⁴ By all accounts (including those provided by several small-scale owners themselves) the wherewithal to apply for these funds and manage a rehab project of this scale is far beyond the capacity of the typical small-scale owner.

The best available evidence, as presented earlier, suggests that many small-scale low-end rental properties do not need tens of thousands of dollars worth of rehabilitation. Although we cannot be sure, because the data on the extent and severity of physical inadequacies in this stock is not readily available, a reasonable interpretation of the AHS data reviewed earlier, combined with the anecdotal reports of a handful of long-term low-end rental property owners, suggests that a few thousand dollars per unit would go a long way toward creating safer and more livable housing for this end of the private rental market.¹⁴⁵

¹⁴³ Author's calculation based on the 1998 AHS metro file and the 2000 Census. These databases yield an estimated 20,000 substandard low-rent units in Baltimore.

¹⁴⁴ The Maryland Affordable Housing Trust provided partial funding for one four-unit property; other state funds were used for 39 additional units in small properties (Baumbach 2004; Rafferty 2004).

¹⁴⁵ This ballpark cost estimate is based on the AHS data indicating that about 34 percent of the units deemed inadequate fell into this category solely because of interior problems such as peeling paint.

What public programs exist to tackle the modest capital needs of small-scale owners? The answer appears to be “none.” This was not always the case. As noted earlier in the discussion of code enforcement, the HUD Section 312 program operated mainly in the 1960s and 1970s. This program was a good fit for Baltimore because it made low-interest rehab loans available to small-scale owners, targeted neighborhoods where private loan capital was not being invested, and provided substantial technical assistance to borrowers for every step in the arduous rehabilitation process, from preparing the application for funds to conducting inspections.¹⁴⁶ It also limited federal expenditures by establishing a revolving fund into which 312 loan repayments were deposited and from which new 312 loans were made.¹⁴⁷ While it appears 312 was never rigorously evaluated, it seems to have been terminated because it cost much more to service than the net present value of the 20-year low-interest loans, had burdensome paperwork requirements for its unsophisticated client audience, was harder to manage than CDBG, and was less well-targeted than the Rental Rehabilitation Program, which replaced it in the 1980s.¹⁴⁸

HUD’s Rental Rehabilitation Program (RRP), in effect between 1985 and 1991,¹⁴⁹ specifically targeted smaller rental properties with moderate rehabilitation needs. Eligible cities, including Baltimore, received funds under an entitlement formula.¹⁵⁰ The federal program paid for half the cost of rehabilitation or \$5,000 per unit, whichever was less. And in the first few years of the program, it coupled the rehabilitation subsidy to the owner with rental assistance (certificates and vouchers) to tenants.

A national evaluation found that the ideal property for the RRP was a small-scale property in “relatively poor, but not uninhabitable, condition,” requiring only a light or moderate invest-

¹⁴⁶ Federal Reserve Banks of New York and Philadelphia (2001); Pascal and Williams (1980).

¹⁴⁷ Pascal and Williams (1980).

¹⁴⁸ Rechler (2004); Pascal and Williams (1980).

¹⁴⁹ Majors (1997).

¹⁵⁰ Heintz et al. (1987).

ment.¹⁵¹ Many participants were small Mom and Pop owners with little experience in government programs. The program also left many design and implementation decisions up to the locality, including the ability to provide technical assistance to uninitiated owners, and to either concentrate RRP resources in particular neighborhoods or spread the resources more widely.¹⁵² The study concluded that the program was effective: after rehab, the large majority of housing units provided decent and affordable housing for low-income households.¹⁵³

During its lifetime, the RRP funded the rehabilitation of 1,212 Baltimore rental units at a cost of about \$5.5 million.¹⁵⁴ The state's MHRP program and private-sector resources were used to underwrite at least some of the rehabilitation activity. It is impossible to reconstruct how much, but even if every unit received a 50 percent match, the average rehab cost would still be less than \$10,000 per unit.¹⁵⁵

This program seems to fit to a T the lion's share of the below-code properties in Baltimore's low-end rental housing stock. Yet Baltimore used the program to rehabilitate only 1,212 housing units in six years. In this case, lack of funding from the federal government was not the cause, since Baltimore received its funding as part of an entitlement formula. Instead, the city ran into problems administering the program. As a result, it had to return more than \$500,000 to HUD in 1989 because it failed to spend the money during the required two-year period and faced the possibility of returning an additional \$1 million in 1990.¹⁵⁶

¹⁵¹ Ibid.

¹⁵² Some cities concentrated their RRP program in "intensive treatment areas," such as where other public and private funds were already being invested (Heintz et al. 1987). In Baltimore, "Healthy Neighborhoods" or neighborhoods designated worthy of public sector investment by the Planning Department's neighborhood typology might be considered current examples of such targeting.

¹⁵³ Heintz et al. (1987).

¹⁵⁴ Majors (1997).

¹⁵⁵ Ibid.

¹⁵⁶ Jacobson (1990); Majors (2005).

At the time, the city offered several explanations for its low productivity, complaining that the program offered developers less attractive financial terms than state programs,¹⁵⁷ and that it was difficult to find matching funds, meet prevailing union wage laws, and relocate tenants during the physical rehabilitation of the properties. Yet, the national evaluation of the Rental Rehab program found that, in a nationally representative sample of 35 entitlement grantees, only 5 had their grants reduced because the cities in question did not meet their commitment levels.¹⁵⁸ Despite the overwhelmingly positive findings in the national evaluation, the federal government terminated the program in 1992 and replaced it with the HOME program.

HOME is considered the first “block grant” for housing.¹⁵⁹ Funds are allocated by formula to states, cities, and other designated jurisdictions and can be used to meet local housing needs. The locality has broad discretion in determining how these dollars are allocated, as long as their programs are designed to provide affordable housing to low-income households.¹⁶⁰ However, unlike the RRP, HOME is not a particularly good fit for Baltimore’s low-income rental housing problems. Whereas the RRP emphasized the modest rehabilitation of small rental properties, only 9 percent of HOME participants in a national evaluation were individual developers.¹⁶¹ More than half of HOME funding for rental housing activity nationwide has been spent on substantial rehabilitation and new construction.¹⁶² The rent limits for HOME properties are also less restrictive than, for example, the Section 8 voucher program, so poor tenants would have difficulty paying the rent without a voucher or other rental subsidy. Local officials interviewed for the national evaluation said that the complex requirements and

¹⁵⁷ Canzian (1989).

¹⁵⁸ Heintz et al. (1987).

¹⁵⁹ Urban Institute (1999).

¹⁶⁰ For example, HOME sets thresholds for income eligibility, the costs of acquisition and rehabilitation, rents, and the like (Urban Institute 1999).

¹⁶¹ Urban Institute (1999), table 3.1.

¹⁶² Urban Institute (1999), table 4.4.

paperwork of HOME reduced the program's attractiveness to small property owners.¹⁶³

Perhaps because of the sophistication required to use the program effectively, Baltimore's strategic plan for HOME funds does not include the small rental property owner. For example, the city has opted to require that rental properties have five or more units to be eligible for HOME funds.¹⁶⁴ Since HOME is one of the few federal funding sources available for rental rehab, this is a serious obstacle for those interested in improving the low-end rental stock. It would be less restrictive if targeting HOME funds to more sophisticated owners and larger properties were part of an overall strategic funding plan that allocated CDBG funds (another source of federal funding to localities) to smaller rental properties with less sophisticated owners. But Baltimore has used its CDBG funds only for owner-occupied homes since at least fiscal year 1999.¹⁶⁵

The Low-Income Housing Tax Credit (LIHTC) program is the largest federal program available for rehabilitating affordable rental housing, with outlays of \$6.2 billion in FY 2003.¹⁶⁶ However, its design makes it irrelevant to the small-scale properties that dominate Baltimore's low-end rental market. The LIHTC is attractive only to those with sufficiently high incomes to seek ways to reduce their federal tax burdens.

With public dollars targeted to homeownership and, to a lesser extent, the rehabilitation of large rental properties, the rehab needs of Baltimore's small-scale rental properties are left to private lenders, who have little interest in such properties, or to the sweat

¹⁶³ Urban Institute (1999), p. 30.

¹⁶⁴ Matthews (2003a). The five units can be located in more than one property.

¹⁶⁵ Janes (2004). HOME and CDBG are sizable programs; nationally, outlays in FY 2003 were about \$5.6 billion for CDBG and \$1.6 billion for HOME. Nationwide, 55 percent of HOME dollars are directed at rental (not homeownership) units, with less than half that fraction (24 percent) targeted to rental rehabilitation of larger multifamily structures (HUD n.d.). About 25 percent of all CDBG project commitments are directed at renovation, though the fraction devoted to *rental* rehab is not known (Listokin and Listokin 2001).

¹⁶⁶ Office of Management and Budget (2004), table 18-1.

equity of owners. While exceptions exist, the inescapable bottom line is that the rehabilitation needs of these properties remain largely unaddressed. With a redirection in public-sector programs highly unlikely and renewed interest by private financial institutions equally remote, other options need to be explored.

Technical Assistance for Small-Scale Owners

Small-scale owners are no different from owners of large holdings in their need for two basic forms of technical assistance: (1) assessing the rehabilitation needs of their properties today and into the future, and the estimated cost of meeting these needs; and (2) identifying sources of subsidy or other financing to cover these costs, along with help preparing applications for funding. While Baltimore's HCD holds pre-proposal conferences when it periodically announces its notice of funding availability (NOFA), and offers guidance on the most suitable subsidy program for "successful proposals,"¹⁶⁷ it does not offer the comprehensive technical assistance just described. In many other jurisdictions, such services are typically provided by the local community development agency and available to all rental property owners regardless of the size of their portfolios. When such assistance is not available through a government agency, large-scale owners can purchase it from vendors, but the average small-scale owner cannot. Developing a strong technical assistance capability in HCD, along with a strong outreach and information campaign to make rental property owners aware that this service is available to them and that they are welcome at HCD, could begin to level the playing field for small-scale owners.

Reforming Small-Scale Rental Property Management

The profile of the modal low-income rental housing property owner in Baltimore makes the management challenge inescapable. Competently managing rental housing requires expertise in finance, property maintenance, recordkeeping, and human rela-

¹⁶⁷ See Baltimore City HCD (2005c) for a recent NOFA.

tions. Good managers use sound approaches to purchasing supplies, bookkeeping, analyzing cash flow, identifying trouble spots and addressing them, screening tenants, and handling tenant problems. Undoubtedly, some Mom and Pop owners have this broad-based know-how, but assuredly many do not.

More than 30 years ago, Stegman identified the lack of management capabilities in the low-rent inventory in Baltimore as a glaring gap. He argued that even if there were generously funded programs to improve the physical housing stock and the investment climate, such programs would probably not succeed without sound property and financial management. This characterization remains as apt today as when he wrote it.

Management Training. One strategy for upgrading management practices is management training programs for rental property owners. Such programs, typically in the form of seminars, have been offered over the years in Baltimore under various auspices (e.g., the city, the property owners association, neighborhood and community development associations). There is no information about how many owners have attended these programs or their effectiveness. What we do know is that the management problem remains significant. If a particularly effective program could be identified and small-scale owners were vigorously recruited to participate, management might improve. Such training is particularly vital for landlords of Section 8 voucher units and Section 8 project-based voucher units. Some knowledgeable observers, however, are skeptical that training small-scale owners to be better managers can succeed. As Stegman put it: “Casual and small investors are, almost without exception, amateurs who are difficult to reach through any potential upgrading program.”¹⁶⁸

Professional Management. Beyond the lack of experience and know-how, another management impediment for small-scale owners is precisely their small scale, preventing them from enjoying the economies associated with larger-scale operations, including

¹⁶⁸ Stegman (1972), 28.

everything from discounted purchases of supplies to trained crews who can make repairs within a reasonable turnaround time.

One option for reaping the benefits of scale economies and increasing the prospects for experienced and competent management is to engage the services of professional management companies. Large, multifamily, market-rate rental properties are almost always professionally managed, as are the holdings of large-scale owners even when their individual properties contain few dwelling units. But professional management of lower-rent properties also exists, with perhaps the best example being student rentals in college towns like Ann Arbor, Michigan, and Madison, Wisconsin. In fact, the rental stock in such locales is similar to Baltimore's in several key dimensions, including small numbers of units per building, an older than average stock, properties spread throughout several city neighborhoods rather than concentrated in only a few, and rent levels that hover around the median for the town. Such attributes would not appear to describe an attractive target for private companies. Yet multiple professional management companies in college towns have expertise in student properties and compete with each other for these management contracts. Perhaps Baltimore could benefit from examining the economics of these companies and the properties over which they compete.

Rationalizing property management was yet another recommendation included in Stegman's 1972 analysis.¹⁶⁹ He called for creation of a public or publicly assisted home maintenance entity with which owners would contract for both routine maintenance and more substantial home improvements. Stegman's rationale three decades ago remains applicable: in many inner-city neighborhoods, the economics of housing maintenance and repair are burdensome for even the most well-intentioned low-end rental property owners without what he called "support and counsel"—what we now refer to as "technical assistance."

Even the best management, however, cannot overcome the absence of adequate rents or some other source of sufficient capi-

¹⁶⁹ Stegman (1972), 217–18. Although this particular analysis by Stegman focuses on expanding homeownership among poor households, it also applies to small-scale owners of low-end rental properties.

tal to upgrade and maintain properties over time. Consequently, some have called for radically restructuring ownership in at least some portion of the affordable rental stock by transferring this inventory to those who can manage and maintain it.¹⁷⁰ This radical strategy is best understood in the context of the availability of financing for small multifamily rental properties, discussed next.

Transforming Ownership. Because small multifamily properties account for the lion's share of the affordable unsubsidized rental housing stock in the U.S., attention has recently been focused on ways to ensure preservation of that stock, including, most prominently, increasing access to mortgage financing.¹⁷¹ Depository institutions, which are the primary source of financing for small properties, have expanded their lending in this market segment; LaSalle Bank, for example, operates a small multifamily loan program in virtually every state,¹⁷² while a division of Credit Suisse First Boston has been experimenting with a small loan program.¹⁷³ Three financing institutions that have made particularly strong commitments to such properties are South Shore Bank in Chicago, the Community Investment Corporation in Chicago, and the Community Preservation Corporation in New York.¹⁷⁴ Several commercial banks and Fannie Mae have also launched small loan programs, though these are characterized as serving the "cream of the small property market"¹⁷⁵ and mainly finance acquisition, not rehabilitation. Members of the real estate financing industry typically are not interested in small rehab loans to affordable rental properties, which many describe as "putting perfume on a pig." Part of the problem is the unanticipated or hidden costs of what is initially estimated to be a "minor" rehab job. Such costs range from undetected but serious structural defects to scheduling delays

¹⁷⁰ Stegman (1972), 274.

¹⁷¹ Narasimhan (2001); Herbert (2001).

¹⁷² Herbert (2001).

¹⁷³ Narasimhan (2001).

¹⁷⁴ *Ibid.*

¹⁷⁵ Herbert (2001), v.

and even erroneous budget projections.¹⁷⁶ Much, too, depends on a housing unit's age and how well it has been maintained over time. But even in a well-maintained unit, housing systems, such as heating and electrical, do not last forever and have to be replaced when they have outlived their natural life expectancy. Doing so entails a significant expenditure.

Thirty years ago, Stegman argued for a transfer of ownership to competent managers and "the creation of mechanisms that can facilitate ownership transfer on a large scale." He recommended the city acquire properties and maintain them until they could be sold; the availability of financing including affordable liability and fire insurance; and improvement in city services and neighborhood facilities.¹⁷⁷ These prescriptions seem like a pipe dream in today's fiscal and political climate, which emphasizes market-based solutions.

One recent market-driven proposal calls for transforming the small, multifamily properties segment of the housing market.¹⁷⁸ To deal with the multiple risks that small-scale, low-income rental properties pose to lenders, including individual and unsophisticated owners, fragile properties, and inner-city locations, the proposal calls for a transfer from individual to institutional ownership through a small multifamily real-estate investment trust, or S-REIT. The S-REIT would be congressionally chartered and would work with both public and private-sector funds to sustain this stock as sound, affordable rental housing. It would do so by correcting the core problems bedeviling this segment of the market: small scale, unsophisticated management, lack of capital, and poor physical condition. Forming an S-REIT would increase the scale of operations to make professional management viable, attract capital, upgrade the stock, and sustain its affordability over time.

Neighborhood Targeting

While the data on neighborhood conditions reviewed earlier demonstrate that even high-priced rental units are not immune to

¹⁷⁶ Stegman (1972).

¹⁷⁷ Stegman (1972), 274–75.

¹⁷⁸ Narasimhan (2001).

neighborhood problems in Baltimore, signs of distress are much more pervasive in the neighborhoods surrounding low-end rental units. All the strategies discussed thus far to address needs at the low end of the rental market—reducing the housing cost burdens of poor tenants, rehabilitating inadequate units, improving management, and transferring ownership—could be accomplished without any attention to neighborhood conditions. But the legacy of more than seven decades of housing programs suggests that ignoring the neighborhood context reduces the odds that such remedies will have long-standing results and the probability of beneficial spillovers (e.g., stabilizing neighborhoods, stimulating new investment in housing and neighborhood facilities and amenities). To quote David Rusk (1995), “Bad communities defeat good programs.”¹⁷⁹ Sound quality housing is a necessary—but not sufficient—condition for transforming a low-quality neighborhood into a neighborhood of choice.

Given the oversupply of housing in many neighborhoods where low-end rental units are concentrated, and the limited resources to address the low-end rental housing problem, there is a strong argument for rationing resources, investing them where they will do the most good. To quote one analysis of neighborhood targeting, “attempts to renovate *all* neighborhoods...will prove a chimera.”¹⁸⁰ The goal is to design a rationing—or targeting—system that achieves the best outcomes. The main rationing choices are three: to invest in the worst neighborhoods, the best neighborhoods, or those showing some signs of distress but still functioning (sometimes called the triage approach). Although Baltimore has followed each of these approaches at one time or another, several of its innovative initiatives, including Healthy Neighborhoods and the Neighborhood Conservation Program, follow the triage model.¹⁸¹

The triage approach is intuitively appealing because its intent is to invest limited resources where they can be expected to have the greatest payoff. Several government programs that provide funding for rehabilitation have explicitly or implicitly adopted this strategy by either requiring geographic targeting or providing

¹⁷⁹ Rusk (1995), 127.

¹⁸⁰ Pascal and Williams (1980), 4.

¹⁸¹ Baltimore City HCD (2005d).

incentives to encourage it. The State of Maryland, for example, assigns additional points in its ranking of proposals competing for funds from the state's Multifamily Bond Program, Rental Housing Fund, and Low-Income Housing Tax Credit if the site meets certain criteria (e.g., located in or adjacent to an area with ongoing development).¹⁸² Historically, HUD's Neighborhood Strategy Areas program provides a clear example of neighborhood targeting of scarce housing resources. HUD made funding available to cities for 50,000 units of housing under its Section 8 Substantial Rehabilitation Program with the quid pro quo that the city locate these units in neighborhoods where strategic neighborhood development activities were under way or planned.¹⁸³

But the process of such triage is often more art than science, with uncertainties at every step, from assessing the stabilization or revitalization potential of each neighborhood to specifying the correct level of resources required for long-term stability or, more ambitiously, to create a springboard for revitalization. So even with a rationing approach, resources may be invested where they aren't needed.¹⁸⁴ And some neighborhood problems may simply not be correctable because of more powerful social and economic forces.¹⁸⁵

Two recent empirical studies (one national, one local) vividly demonstrate how difficult neighborhood targeting can be. The national study is the evaluation of HUD's Moving to Opportunity demonstration program.¹⁸⁶ The core goal of this demonstration is to measure the concrete benefits to children and parents of moving from inner-city distressed public housing units located in very high poverty neighborhoods (poverty rates above 40 percent) to neighborhoods with very low poverty rates (below 10 percent). Volunteer households living in public housing units in the six demonstration cities (including Baltimore) were randomly assigned to one of three groups: (1) the treatment group,

¹⁸² Maryland HCD (2002).

¹⁸³ See, for example, Rosenthal (1988) and Newman and Schnare (1993).

¹⁸⁴ See Pascal and Williams (1980) for a discussion of these issues, including alternative rationing options at the city, neighborhood, and clientele levels.

¹⁸⁵ Stegman (1972).

¹⁸⁶ Orr et al. (2003).

which was given Section 8 vouchers and required to move to neighborhoods where less than 10 percent of households had incomes below the poverty line; (2) the control group, which received no intervention and often remained in public housing; and (3) a comparison group, which was given Section 8 vouchers but not required to move to a low-poverty neighborhood.

After five to six years, although the treatment group experienced some net benefits (such as reductions in obesity and depression among mothers and their adolescent daughters), the expected wide range of positive effects from living in a low-poverty neighborhood has not been forthcoming. And some effects have been negative (e.g., increased property crime by adolescent boys). Another unexpected result is the similarity across a number of impacts between the treatment group that moved to low-poverty neighborhoods and the comparison group that was not required to move to low-poverty neighborhoods and typically ended up in a neighborhood with about a 30 percent poverty rate. These results raise not only the narrow question of whether the poverty rate is the best measure of neighborhood quality, but also the overarching question of the effects of neighborhoods on child and adult outcomes.

The local study, conducted in Baltimore in fall 2003, was also quoted earlier. It examined the relationship between multiple measures of neighborhood quality and the neighborhood poverty rate, and found little or no support for a 20 percent neighborhood poverty rate as a marker of neighborhood quality.¹⁸⁷ These studies, and others, make it clear that we have not yet figured out what it is about neighborhoods that matters most for residents, and for the future of the neighborhood itself. These open questions contribute mightily to the difficulty of effective neighborhood targeting.¹⁸⁸

Beyond the challenge of selecting the best target neighborhoods is designing the appropriate intervention—what exactly to do in each neighborhood. From the perspective of addressing the problems besetting the low-end rental market, what mix of strategies is needed

¹⁸⁷ Johns Hopkins Master's Program in Public Policy (2004).

¹⁸⁸ See Newman and Schnare (1997) for a discussion of neighborhood targeting.

to address affordability, dwelling inadequacies, the combination of the two, and property management? And what other investments in neighborhood infrastructure are required to sustain the benefits of these interventions over time? We don't know the answers to these questions. But it is clear that differences across neighborhoods require a retail rather than a wholesale or one-size-fits-all approach, with initiatives tailored to the needs of each neighborhood.

CONCLUSIONS

Recent headlines in the *Baltimore Sun* proclaim that “real estate’s rising tide” has hit Baltimore’s home prices.¹⁸⁹ At the opposite end of the city’s housing market are an estimated 40,000 low-income renters who cannot afford even the modest rents on their dwellings, live in substandard housing, or both, and nearly 20,000 substandard units renting for less than the median rent. It may be tempting to believe that the current run up in housing prices is a long-term trend that will eventually trickle down to the bottom end of the rental market and resolve many of its problems.¹⁹⁰ We know that past upticks in sales prices—most recently the sustained annual increases between 1996 and 1999—did not appreciably affect the low-end rental market.¹⁹¹ But the increases occurring now are much larger, and if sustained over time and expanded geographically, could ultimately trickle down to the bottom of the rental market, as appears to be happening 40 miles down the road in Washington, D.C. Nonetheless, a rising residential sales market, even if sustained and geographically widespread, will not produce such effects for many years.

Because counting on a solely private market-driven solution will not address the serious problems in the low-end rental mar-

¹⁸⁹ Hopkins (2005).

¹⁹⁰ One problem that would likely be exacerbated is housing affordability for low-income renters, as greater demand for low-rent units drives up their price. Also of concern is property flipping by speculators hoping to ride the wave of sales price increases.

¹⁹¹ Author’s calculations from Baltimore City HCD (2005a).

ket in the short run, if at all, this paper takes a very different tack. It disaggregates the range of problems besetting the low-end rental market, and then identifies specific initiatives—both public and private—that could at least begin to lessen the problems. The federal Section 8 voucher program and the project-based voucher program were designed to address housing affordability and physically inadequate housing, either separately or in combination. These programs are essential to the city of Baltimore, and every effort should be made to ensure the city receives its fair share of these resources from HUD, and that it manages these programs expertly so landlords begin to trust the programs enough to participate and the maximum number of needy tenants are assisted. If the city continues to face difficulties in managing the Section 8 voucher program, it should consider contracting out the program, as other cities have done.

Garnering Section 8 resources and competently managing the program have always been challenging goals. They are even more so in the current environment. Recent changes in federal regulations governing the voucher program have reduced the allocation of vouchers to many cities, including Baltimore, and proposed changes by the Bush administration would reduce these allocations even further. Instead of an increased allocation, which Baltimore sorely needs, these recent program changes have been a disincentive to PHAs to lease voucher units.¹⁹² As one of the nation's major cities for which the voucher program is clearly vital, Baltimore should play a leading role in the debate about the future design and funding of the voucher (including the project-based voucher) program.

One exciting opportunity being finalized as this paper goes to press is Baltimore's impending participation in an innovative HUD demonstration program, Moving to Work, or MTW.¹⁹³ Under MTW, PHAs can combine different streams of HUD subsidies

¹⁹² *Housing and Development Reporter* (2005).

¹⁹³ The discussion of the MTW program is based on Newman (1999), Housing Authority of the County of Tulare (2005), Sciacqua (2004, 2005), and Turnham (2002).

and use them in any way they think will best encourage tenants to enter the workforce, free of many of the rules and regulations otherwise governing housing programs. MTW provides no additional funds, but PHAs can keep any savings they generate. The cost-based rent idea briefly described earlier is one strategy Baltimore could test once it begins to participate in MTW.

The MTW approaches in the 21 PHAs initially selected to participate in this program reflect virtually every bright idea about how to fix housing assistance programs, including ensuring a housing subsidy is not a disincentive to tenants to become economically self-sufficient, increasing access to housing subsidies by needy households on the often excessively long assisted housing waiting lists, and cutting program costs. Tulare County, California, is a PHA combining all three strategies. It uses flat rents, for example, tying the rent to the size of the housing unit, as in the private housing market.¹⁹⁴ Rents are reevaluated annually and may increase no more than 10 percent per year to cover increased operating costs. Because income recertifications and verifications are unnecessary, program costs are also ultimately expected to fall.¹⁹⁵ To both reduce the potential disincentive effects and free up housing subsidies, 10 of the 21 sites set time limits on housing assistance, ranging from three to six years.

Unfortunately, MTW is not being evaluated rigorously. This means that neither Baltimore nor other cities will be able to draw firm conclusions about the impacts of these creative strategies. It is all the more important, therefore, for Baltimore to launch its own carefully designed and implemented evaluation as it begins its foray into the MTW world. As it does so, it should carefully consider the findings from another multiyear demonstration program, Jobs-Plus, which strongly suggests that allowing tenants to retain increases in income from earnings by not concomitantly

¹⁹⁴ To reduce or eliminate the disincentive effects of housing on labor-force participation (and income underreporting), 11 of these 21 PHAs no longer set rents based on the household's income, increasing or decreasing the rent as income rises or falls.

¹⁹⁵ Cost savings have not yet been realized, however, possibly because the PHA is running both the old and new programs simultaneously.

increasing rents can have salubrious results: more tenants in the workforce, increased earnings, and tenant earnings exceeding the cost of the program.¹⁹⁶

Baltimore was one of the six Jobs-Plus demonstration sites, although its experience was miserable, with problems ranging from shootings and an active drug trade at Jobs-Plus developments to the disintegration of the network of partners designed to deliver key services.¹⁹⁷ This negative Jobs-Plus experience sounds a strong cautionary note as the city launches its MTW efforts and other demonstration programs advocated here. Unless these interventions are designed and implemented well, with sufficient resources devoted to their effective administration, the fundamental goal of learning what works, for whom, and at what cost will not be achieved.

The city currently addresses the problem of physically inadequate low-income rental housing in three ways: code enforcement, lead-based paint abatement, and rental rehabilitation programs. But each operates autonomously, and small-scale properties—where the bulk of Baltimore’s low-rent units and low-income renters are concentrated—are excluded from both the code and rehab components.

Code enforcement provides the critical first step of any systematic approach to improving housing conditions by identifying the city’s inadequate units. But by excluding rentals in single-unit structures, the Baltimore program misses 40–50 percent of the units at the low end of the market.¹⁹⁸ And lack of any direct connection to the resources needed to bring the unit up to code—ranging from technical assistance to funding—renders it relatively ineffective.

Lead paint abatement is also an undeniably essential component of rehabilitating the rental housing stock. But it also currently exists as a stand-alone program, not part of an integrated

¹⁹⁶ Bloom et al. (2005). Jobs-Plus tested the provision of employment-related services, community supports, and rent incentives in public housing.

¹⁹⁷ Bloom et al. (2005), chapter 3.

¹⁹⁸ Either below median rent unit or rented by household with below median income for renters.

and systematic approach to rental rehabilitation. Here, too, Baltimore needs a demonstration program. Neither federal nor state funds currently exist for such innovative experimentation. But Maryland has a solid track record for forward thinking in housing and community development, and any opportunity to cultivate demonstration funds should be seized. Further, because this demonstration can be characterized in many different ways—an innovation in government service provision, an improvement to local infrastructure, a restoration of the physical and economic life (and taxable base) of the housing stock—national and local foundations and financial institutions with missions in one or more of these areas might provide support.

An estimated \$95 million from federal, state, and city sources was spent in the city of Baltimore on rental rehab between 1999 and 2003. But essentially none of this funding is accessible to properties with fewer than five dwelling units, despite the fact that an estimated 77 percent of the city's rental units with physical inadequacies are located in small-scale properties, and more than 60 percent of low-rent units are located in these smaller structures. Allocating some of the \$95 million to include smaller-scale structures is not a viable strategy, since the fraction of physically deficient dwelling units is not appreciably different among larger multifamily buildings than small-scale rentals. In any case, \$20 million a year in total does not go very far in addressing the rehab needs of the city's rental stock. Other options are needed.

One alternative is for the city to reconsider creating its own housing trust fund,¹⁹⁹ comparable to the Maryland Affordable Housing Trust created by the state in 1992.²⁰⁰ Such trust funds currently exist in more than 350 cities, counties, and states.²⁰¹ While structured in different ways, their general goal is to ear-

¹⁹⁹ Center for Community Change (2003); Soifer (2001). On April 20, 2005, Councilman Jack Young presented his proposal for a city housing trust fund supported by revenues from in-lieu housing fees and a share of equity from home sales (Young 2005).

²⁰⁰ Maryland HCD (2003).

²⁰¹ Philadelphia Housing Trust Fund Campaign (n.d.).

mark dollars for investment in affordable housing. Funds are typically a dedicated revenue source that automatically replenishes itself (such as real estate transfer taxes or document recording fees), though some funds include contributions from general revenues and from individuals, foundations, corporations, and governments. Baltimore, for example, might consider earmarking a fraction of its revenues from the transfer and recordation tax to seed the fund, since these sources have increased as a result of the upsurge in home sales and prices.²⁰²

An additional and fundamental obstacle to shoring up the physical integrity of the low-end rental market stock is its ownership—more than 80 percent Mom and Pop owners, often undercapitalized and lacking real estate financing and management savvy. It is hard to see how Baltimore can significantly improve its low-rent properties until the ownership challenge is addressed. Options here range from modest changes, such as providing technical assistance, to a radical restructuring of ownership.

Two vital assets would help the city grapple with its low-end rental housing market. The first is timely and accurate data that would allow program designers and policymakers to better understand this market and to answer critical questions about underlying problems, not just symptoms. Some may view this as an odd recommendation in light of the city's signature initiative, the CitiStat web-based data system. But based on my first-hand experience conducting the research for this paper, I can state unequivocally that such information is either nonexistent or inaccessible to researchers.²⁰³ Yet, it is hard to imagine being able to plan a systematic strategy without such data. The fraction of low-end rental units owned by small-scale operators, the share of rental units that fail the initial Section 8 voucher inspection and do not file for reinspection, whether code violations are serious or minor, or even how much money the city spends

²⁰² Office of the Mayor (2005).

²⁰³ My extremely patient colleagues at the Abell Foundation, which funded this paper, and the city and state staff who helped me time and time again would undoubtedly support this view.

on housing activities in general and rental rehabilitation in particular—these are just four examples of the data that should be readily at hand.

At least three steps are required to move the city's data content and quality forward: identifying what data should be collected; assigning the collection, quality control, and updating to the appropriate departments; and documenting and storing the information in a usable manner. CitiStat provides an excellent vehicle on which to build. But much still needs to be done to finish the job.

The city also has a major vested interest in the continuation of the American Housing Survey (AHS) metropolitan area data collected by the U.S. Census Bureau for HUD. These are the only ongoing, systematically collected survey data from a representative sample of Baltimore city housing units that exist, and the city does not have to pay for them. These data, which I have relied on significantly in this paper, are a unique source of rich information on a very wide range of features, from the physical inadequacies in the rental stock to the household characteristics of low-income renters. These metro area surveys are supposed to be fielded every six years but this schedule has been interrupted in the past by funding constraints. The next Baltimore AHS metro survey is scheduled for 2006. With this year's advent of the Census Bureau's American Community Survey (ACS), which is designed to provide local area data for intercensal years, there is a substantial risk that the AHS metro data series will be terminated. However, the ACS provides only a fraction of the information included in the AHS metro survey; and, of particular concern to Baltimore, it lacks the rich AHS detail on housing units. Here again the city should seize the opportunity to advocate strongly for a regularly scheduled metro area AHS in Baltimore. A critical part of that advocacy should include attention to the quality of data collection, in light of the substantial undercount of occupied rental units in the 1998 AHS data (see appendix A for further details).

A second vital asset, in addition to adequate data, is program evaluation. If the city wants to make sure that every dollar it ultimately invests in the low-end rental market counts, there is no

short-cut around careful evaluation of its initiatives. But to get the most policy value out of evaluations, they must be planned alongside the policy initiative right from the start, and must last long enough so that effects can be measured after the program has worked out its kinks and is in steady state.²⁰⁴

More than 30 years ago, Stegman's thorough analysis of Baltimore's low-end rental market proposed several of the solutions suggested here, particularly those pertaining to the management and ownership of this housing stock. It is hard not to wonder how things might be very different today had even some of those proposals been adopted. One hopes that steps will be taken now so the city doesn't face the same or worse problems another 30 years down the line.

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²⁰⁴ See Thornton et al. (1999) for a useful discussion of the policy value of evaluation research.

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APPENDIX A.

1998 AMERICAN HOUSING SURVEY DATA FOR BALTIMORE

Although the AHS 1998 metro file is the richest source of housing and neighborhood data currently available on Baltimore rental units, it has two known weaknesses. The first, which affects both the national and metro area, is that the AHS is known to understate household income.²⁰⁵ Second, the Census Bureau has documented an undercount of occupied rental units in its Baltimore city fielding of the AHS in 1998.²⁰⁶

TESTING STATISTICAL ADJUSTMENTS

To assess the effects of these two weaknesses in the AHS data, all estimates provided in this report have been recalculated after making the following statistical adjustments to the data. To address the likely income undercount, we adjusted incomes of renters reported in the 2000 Census for the city of Baltimore to 1998 dollars.²⁰⁷ Since the extent of the rental unit undercount is unknown, it was much less clear how to address the undercount of occupied rentals. In its web posting on the undercount, the Census Bureau notes that “the relative underestimate of renter-occupied units in the central city of Baltimore is small.” This is

²⁰⁵ Susin (2003).

²⁰⁶ U.S. Department of Commerce, Bureau of the Census (2001).

²⁰⁷ U.S. Department of Labor, Bureau of Labor Statistics (2005b).

reassuring. But because the Census Bureau cannot identify the units that were misclassified, it does not offer guidance for statistically adjusting the data.

We used two facts to develop such an adjustment: (1) the 10 percent decline in occupied rental housing in Baltimore between the 1990 and 2000 censuses; and (2) the number of occupied rental units in the 1991 Baltimore metro AHS, which did not experience an undercount of occupied rental units. Using these two pieces of information, we deflated the 1991 occupied rentals by 7 percent (covering the 1991–98 period), resulting in an estimated undercount of occupied rentals in the 1998 AHS of roughly 10 percent. We then applied this 10 percent inflation factor to the 1998 AHS and recalculated all estimates.

Both these adjustments are inevitably imprecise. The inflation-adjusted 2000 Census income figure suffers from the imprecision of the CPI adjustment as applied to Baltimore's rental market, and any shift in the characteristics of low-income renters between 1998 and 2000. The adjustment for the unit undercount is based on the assumption of a linear, even decline in occupied rentals over the decade. It also assumes the undercount was evenly distributed across the rental market. Because of these weaknesses, I view these adjustments as only rough sensitivity tests for the robustness of the 1998 metro AHS estimates.

Overwhelmingly, comparisons of these adjusted *rates* and those estimated with the 1998 AHS alone demonstrate great similarity. Of course, applying the 10 percent inflation factor to the number of units or renters generates higher *absolute numbers*. For example, the Census-adjusted median income is roughly \$5,000 higher than that reported in the AHS, producing about 14,000 more households below this revised income threshold. Virtually all estimates reported in the text are based on the 1998 AHS; the absolute counts may be viewed as a lower bound.

HOUSEHOLD SIZE ADJUSTMENT

Beyond testing adjustment for these two weaknesses, I also took account of household size in the analyses using income thresholds—for example, households with incomes below the

city's median household income for renters. These thresholds are used throughout the paper to approximate low-income versus higher-income renter households. In these cases, I applied a household size adjustment to account for the fact that the same amount of income stretches farther for smaller compared to larger households. Similar adjustments are made by the Census Bureau in establishing the poverty thresholds, and by HUD in establishing income eligibility cutoffs for assisted housing. I adopted HUD's formulation in these household size adjustments.²⁰⁸ Income-related estimates reported in the text include this household size adjustment, where relevant.

²⁰⁸ The HUD standard starts with a family of four as its base case. This base case is inflated by 8 percent for each additional member, and deflated by 10 percent for each person below four.

APPENDIX B.

SELECTED CHARACTERISTICS OF BALTIMORE RENTAL UNITS AND RENTER HOUSEHOLDS

<i>Characteristic</i>	<i>Value^a</i>
Renters	
Household Characteristics	
Total (2000)	128,000
Decrease 1970–2000	32,000
% welfare (1998)	20
% minority (1998)	~ 70
Nonelderly with no children (1998)	52,000
% paying > 30% income for rent	44
% paying > 50% income for rent	24
% able to afford HUD FMR	44
% living in substandard units	28
Substandard unit and below median income	5,452
% substandard unit and receiving housing assistance	33
% with ≥ 3 neighborhood problems	17
% substandard unit, crime present	~ 50
% female-headed	50
% minority-headed	66
% income below city median ^b	62
% welfare	9
With children (1998)	33,000
% paying > 30% income for rent	50
% paying > 50% income for rent	29
% able to afford HUD FMR	32
% living in substandard units	41
Substandard unit and below median income	7,000
% substandard unit and receiving housing assistance	50
% with ≥ 3 neighborhood problems	20
% substandard unit, crime present	~ 50
% female-headed	83
% minority-headed	83
% income below city median ^b	61
% welfare	30
Elderly (1998)	19,000
% paying > 30% income for rent	75
% paying > 40% income for rent	54

<i>Characteristic</i>	<i>Value^a</i>
% paying > 50% income for rent	46
% able to afford HUD FMR	6
% living in substandard units	24
Substandard unit and below median income	2,159
% substandard unit and receiving housing assistance	15
% with ≥ 3 neighborhood problems	8
% substandard unit, crime present	66
% female-headed	25
% minority-headed	68
% income below city median ^b	94
% welfare	19
Income	
Median (2000) ^c	\$19,381
Median (1998)	\$14,002
Elderly median (1998)	\$ 6,132
Nonelderly, with or without children median (1998)	\$17,000
# below median (1998)	52,000
% paying > 30% for rent	80
% paying > 50% for rent	67
Rental Unit Characteristics	
% vacant (2000)	7.6
Abandoned (2002)	13,830
Abandoned (1997)	35,000–40,000
Affordable (1998) ^d	42,000
% affordable, tenant income above median (1998)	45
Evictions per year (mid-1990s)	7,500
Cost^e	
Median (1970)	\$370
Median (1980)	\$319
Median (1990)	\$400
Median (2000)	\$387
Median (1998)	\$400
Metro area median (1998)	\$584
> \$600 (1979)	8,857
> \$600 (1991)	11,474
% ≤ \$400 (2000) ^f	50
% > \$600 (2000) ^f	15
Affordable (1998)	\$350
Deficit in affordable units (1998)	23,000
Metro area FMR, two-bedroom (1998)	\$618
Quality	
Multifamily below code	23,000
Outstanding code violations (2004)	~20,000
% substandard (1998)	32
% substandard (1979)	37
Substandard (1998)	33,000
% affordable	6
% ≥ 5 rooms	42
Interior problems only	~11,000
% rent > \$400	30
% rent < \$400	33
% rent > \$350	30
% rent < \$350	34
% rent > \$400, ≥ 1 neighborhood problem	57
% rent < \$400, ≥ 1 neighborhood problem	86

<i>Characteristic</i>	<i>Value^a</i>
% rent > \$400, crime problems	26
% rent < \$400, crime problems	40
% severe deficiencies, affordable (1998)	8
% severe deficiencies, unaffordable (1998)	4
% adequate, low-rent (1998)	67
% lead paint present (2000)	75
% low-end rentals in 1-unit structures	~50
% low-end rentals in < 5-unit structures	~60
% physically inadequate rentals in < 5-unit structures	77
Ownership	
Registered owners	23,512
Own < 5 units	20,738
Assisted	
% rentals federally assisted (2005)	20
% failed initial Section 8 inspection (2002–04)	48
% passed Section 8 reinspection (2002–04)	66
Households on Section 8 waiting list (2005)	~ 16,000
Households on public housing waiting list (2005)	18,000
Project-based vouchers in use (2004)	700
Government-Funded Rental Rehabilitation	
Units (1999–2003)	3,451
Expenditure	\$95 million
Average cost	\$27,386
Units excluding special needs (1999–2003)	2,449
Expenditure	\$68 million
Average cost	\$27,963

Sources: AHS 1979, 1991, and 1998 metropolitan files; Maryland Department of Planning (2003, 2004a); decennial census data (1970, 1980, 1990, 2000); U.S. Department of Commerce (2003); Baltimore City Department of Housing and Community Development (2000, 2002, 2005b); *Baltimore Sun* (1997); Mairose (2001); Abell Foundation (2003); U.S. Department of Housing and Urban Development (1998); Faleti (2004, 2005); Redmond (2004); *Thompson v. HUD* (2005); Smith (2004, 2005); Thomas (2005); A. Johns (2004); Albro (2004); Allen (2005); Baumbach (2004); Driscoll (2004); Goetzinger (2004a, 2004b); Greiner (2004a, 2004b, 2004c, 2005); Grimes (2004); Gross (2003); Janes (2004, 2005); H. Johns (2004); Maryland Department of Housing and Community Development (2004); Matthews (2003b, 2004); Rafferty (2004).

^a Many are approximate. See appendix A.

^b Renters and owners.

^c Income in 1998\$.

^d Rent that the median income renter can afford, paying $\geq 30\%$ of income for rent.

^e Costs are expressed in 1998\$ unless otherwise noted.

^f Rent in 2000\$.

APPENDIX C.

METHODOLOGY FOR IDENTIFYING NEIGHBORHOODS WITH SIZABLE GROWTH IN MEDIAN RENTS, 1980–90

1 990 contract rent data were extracted from the 1990 Census Bureau Summary Tape file 1A. These were used to calculate, for each tract within Baltimore city, the number of units renting for \$500 or more a month. This was accomplished by adding the rent categories from the \$500–\$549 range through the \$1,000 or more range. The numbers were adjusted for inflation using the CPI national index for all items, demonstrating that \$500 in 1990 was worth \$315 in 1980. 1980 contract rent data were extracted from the 1980 Census Bureau Summary Tape File 1A. The closest breakpoint to the \$315 threshold was the \$300–\$399 range. As with 1990, we added the categories from this range to the highest, which was \$500 or greater in the 1980 data. (Because we included units that rented for \$300–\$314, the comparison is actually between units that rented in 1980 for \$476 [in constant 1990 dollars] to units that rented in 1990 for \$500.)

This comparison reveals that the number of high-rent units in the city increased from 6,518 in 1980 to 14,516 in 1990. To pinpoint the neighborhoods accounting for these increases, we calculated the difference in the number of high-rent units between 1980 and 1990 for each census tract, identified the tracts with the largest numbers of new units, and then determined the neighborhoods within those tracts.

To compare tract and neighborhood boundaries, we overlaid a 1990 Census tract map and a map of Baltimore communities

and neighborhoods provided by the City Department of Planning. The boundaries do not coincide, and therefore many tracts contain parts of multiple neighborhoods. The relevant tracts, and the neighborhoods that fall (at least partially) within them, are shown below.

<i>2000 tract</i>	<i># units ≥ \$300, 1980</i>	<i># units ≥ \$500, 1990</i>	<i>Change, 1980–90</i>	<i>Neighborhoods</i>
1202.00	226	737	511	Johns Hopkins Homewood, Abell, Oakenshawe, northern part of Charles Village
2201.00	29	481	452	Ridgely's Delight, Otterbein, Inner Harbor, parts of Federal Hill
0401.00	197	541	344	Downtown
0104.00	2	332	330	Most of the Canton waterfront area
2720.02	528	840	312	Parts of Cross Country and Cheswolde
1307.00	94	385	291	Hoes Heights, parts of Hamden and Wyman Park
0203.00	8	243	235	Fells Point, small part of Little Italy
2720.01	312	533	221	Fallstaff, part of Glen
1401.00	348	556	208	Bolton Hill

APPENDIX D.

METHODOLOGY FOR CREATING TABLES 2–5

Table 2 presents expenditures on housing activities in Baltimore city and the share spent on rehabilitation of rental units. Because precise data were often unavailable, this appendix describes the approach taken to arrive at the best estimates.

The calculation of rental rehabilitation expenditures, presented in the second column of numbers, is based on the sum of funding, by program, for all units in all rental rehabilitation projects. In a few cases, funding encompassed both rehabilitation and some other activity, such as acquisition, and it was impossible to estimate rehabilitation costs alone. In a few other cases, the type of activity funded was not identified. In both situations, the table provides the full funding amount and may, therefore, somewhat overstate rental rehabilitation expenditures. To the best of our knowledge, all projects included are for rental, rather than homeowner, units.

Table 3 presents an unduplicated count of units receiving funding for rental rehabilitation from any program. We first identified those projects that were funded by multiple programs and put these into the overlap category shown in the table. Projects funded by only one program are reported under that program.

Tables 4 and 5 present expenditures and an unduplicated unit count, excluding any projects that targeted a “special population.” What remains are expenditures and units available to the general low-income population. Special populations include the elderly,

mentally ill, disabled, and homeless (i.e., transitional housing and beds). Determining whether a project served a special population was based on program descriptions, project descriptions, and additional information from program staff.

ESTIMATES OF EXPENDITURES FOR ALL HOUSING ACTIVITIES

Federal

Federal funds in the city's capital budget. None of these programs were used to fund rental rehabilitation, with the exception of the *Rental Rehabilitation Program* (RRP). The RRP funds reported here, however, are actually repayments from old loans rather than new projects. This program has been defunct since the late 1980s. DHCD staff determined the amount of housing-related funding for each program.

Federal funds in the city's operating budget. We excluded entirely programs that had no housing activities, such as Head Start, and included 100 percent of funding for the *Neighborhood Services Program*, which has only housing activities (e.g., boarding and cleaning of vacant houses; code enforcement). For the remainder of the programs, we received assistance from DHCD to determine the fraction of funding devoted to rental rehabilitation.

Federal funding for *Construction and Building Inspection* is used largely for demolitions. Although this category includes some office building demolition, most are residential and 100 percent of this funding is included in the table.

Services for Homeless Persons includes HOPWA and McKinney Supportive Housing Programs.²⁰⁹ Emergency Shelter Grants (ESG) are not relevant and are excluded by reducing the homeless services component by \$1 million per year, as recommended by DHCD.

Finance and Development covers a wide range of activities, some of which are housing related (e.g., development of transitional housing and SRO sites) and some of which are not (e.g., provision

²⁰⁹ See appendix F for federal program definitions.

of technical assistance to business owners). Two-thirds of annual funding was included to approximate the amount devoted to housing activities, as recommended by DHCD.

Special Housing Grants (SHG) was a difficult category to interpret. It includes funding for lead abatement programs and the Rental Allowance Program. Although these two programs are covered under other sources, it is our understanding that the other sources include capital costs, while these SHG funds are for operating costs. Therefore, 100 percent of these funds are included.

Community Support Projects was another difficult category. It includes housing activities but also literacy-related and other services, with big variation by year. On the advice of DHCD, 50 percent of these funds are included as a rough estimate of housing-related funding.

State

State funds in the city's operating budget. Special Housing Grants are excluded, because these expenditures were covered under MHRP, Partnership Rental Housing Program and Special Loan Programs. All funds for *Services for Homeless Persons*, *Neighborhood Services* and *Weatherization* were included. Two-thirds of the annual funding amounts were included for *Finance and Development*, on the advice of DCHD staff, as described above.

City

City general and special funds from the operating budget. One hundred percent of funding was included for *Construction and Building Inspection*, *Services for Homeless Persons*, and *Neighborhood Services*. Also included were two-thirds of the *Finance and Development* funds, and 50 percent of *Community Support Projects* funds.

ESTIMATES OF RENTAL REHABILITATION EXPENDITURES

HOME. Specific project award dates or the year of the award are identified for all sources except HOME and city bonds. Because

specific award dates were unavailable, and data were provided for 1998–2003, projects funded in 1998 could not be eliminated.²¹⁰

AHP. The AHP data identify projects funded for rehab versus new construction for 2000–03. Only one 30-unit rental project was funded in 1999. This project was included although it is impossible to know whether the funding was for rehabilitation or some other activity.

Lead abatement. Some state lead abatement funding came from the *MHRP* program and is presumably already represented in the *MHRP* program data. It is therefore not included again in the lead abatement total to avoid double-counting.

²¹⁰ There is also some chance that some projects funded before 1998 are included but there is no way to determine this.

APPENDIX E.

STATE HOUSING PROGRAMS

Maryland Affordable Housing Trust (MAHT)

This program, created in 1992, provides grants to fund capital costs, supportive services, and operating expenses for affordable rental and owner-occupied housing.

Rental Housing Production Program (RHPP) and Elderly Rental Housing Program (ERHP)

Formerly separate programs, these now function as components of the overall Rental Housing Fund. Developers are awarded loans, often in conjunction with LIHTC or HOME funding, for new construction or rehabilitation of affordable multifamily rental housing.

Multifamily Bond Program—Tax Exempt (MBP-TE)

The tax-exempt bonds provided through this program are intended to support new construction or acquisition and rehabilitation of rental housing for low-income residents.

Transitional Housing Grant (THG)

This program supports the construction, acquisition, or rehabilitation of emergency shelters and transitional housing with

supportive services through grants to nonprofit organizations and local governments.

Maryland Housing Rehabilitation Program—Single Family (MHRP-SF)

The goal of this program is to bring single-family and one- to four-unit rental properties up to code by providing loans for rehabilitation of both interior and exterior problems.

Partnership Rental Housing Program (PRHP)

This program provides loans to local governments and housing authorities for new construction or acquisition and rehabilitation of low-income rental units. The loan may be forgiven as long as the borrower complies with program requirements, including continued ownership of the property and rental to income-eligible families.

Lead Hazard Reduction Grant and Loan Program

The state's lead abatement program provides grants and loans for abatement activities in owner-occupied or rental properties constructed before 1950.

Community Legacy

Community Legacy assists projects in neighborhoods that are in decline but show potential for revitalization. Local governments and nonprofit partners can receive capital and operating funding. This program is intended to supplement other state programs to allow for revitalization of entire neighborhoods rather than just small parts.

Rental Allowance Program

Grants from this program allow local governments to provide rent payment assistance to low-income families who are homeless

or in danger of becoming homeless. Payments can be made for a family for up to 12 months, for a variety of housing settings from boarding rooms to single-family homes.

Homeownership Programs

Several homeownership programs are funded by the state for activities such as down payment and settlement expense assistance, homebuyer counseling and low-interest loans to low-income disabled persons, and special projects such as the Homeownership Opportunities for Teachers initiative.

Special Loan Programs

In addition to the other programs described here, the state offers various special loan programs. These programs can be short-term or ongoing, and can be targeted to a specific area or be more broadly available. Some recent programs have included funding for lead paint abatement to local governments, capacity building for nonprofit housing developers, development of group homes, and installation of indoor plumbing.

APPENDIX F.

FEDERAL HOUSING PROGRAMS

Section 108 Loan Guarantees

As part of CDBG, HUD provides loan guarantees to finance housing rehabilitation, economic development, and large physical developments. Seventy percent of funds must target low- or moderate-income persons. Baltimore generally uses the funds for large-scale housing initiatives.

Urban Development Action Grant (UDAG) Repayments

UDAG, which was terminated in 1988, focused on economic recovery in distressed urban areas. These funds in table 2 represent income derived from the repayment of UDAG loans.

Sandtown-Winchester Economic Development Initiative (EDI)

The EDI program makes grants to CDBG recipients, in conjunction with Section 108 loan guarantees, for carrying out economic development activities, including housing-related projects. Baltimore's EDI project is a Homeownership Zone grant.

Neighborhood Initiative (NI) Grant

NI is a program under EDI. Funds must be used to improve distressed neighborhoods, stimulate economic revitalization, or

work toward integration of housing-related benefits with welfare reform.

Rental Rehabilitation Program

This program, which ran in Baltimore from 1985 to 1991, provided funding to cities and states for rehabilitating rental housing in low-income neighborhoods.

Up-front Grant Program

This program provides capital funds for development costs, including demolition and rehabilitation, of HUD-owned multi-family housing. Projects utilizing these funds must preserve affordable housing.

Housing Opportunities for Persons with AIDS (HOPWA)

Created in 1990, HOPWA provides grants to fund housing assistance and supportive services for low-income persons with AIDS. This program is intended to promote stable housing and facilitate access to healthcare.

McKinney Supportive Housing Programs

Services provided under these programs are targeted at the homeless. Housing-related funding ranges from emergency shelter grants to permanent housing for handicapped homeless persons. The programs were authorized in 1987.

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