INTRODUCTION
Toward a Third Sector Housing Policy

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There was a time, not too long ago, when U.S. cities that were overwhelmed by mounting shortages of affordable housing and worsening conditions of dilapidation, overcrowding, and homelessness could look to Washington for new funding and new ideas to alleviate their problems. The 1980s brought that era to an end. For more than a decade, municipal governments grappled with housing problems of a size and severity seldom seen in the United States since the Great Depression, while the federal department entrusted with the task of addressing those problems was systematically stripped of its former funding by a conservative Republican presidency and a submissive Democratic Congress.

As federal funding for the production, rehabilitation, and operation of affordable housing was being cut to a trickle, so too was the federal flow of new ideas. Administrators, analysts, consultants, and contractors who had played key roles in developing new housing, new programs, and new policies for urban neighborhoods departed the U.S. Department of Housing and Urban Development in droves.[1] By the decade's end, no one outside Washington could seriously believe that tomorrow's solutions to the housing problems of U.S. cities were likely to spring from the nation's capital.

Municipal officials learned to look elsewhere. Indeed, they learned to look largely to themselves. Few people at the local level had any illusions about the ability of cities and towns to replace the billions of dollars removed from the federal housing budget during the 1980s, but neither did they have the luxury of pretending (as their Washington counterparts did) that the pressing problems of U.S. cities did not exist or would soon be washed away by a rising tide of deregulated market activity. Municipalities were forced, by necessity and by default, to develop new sources of funding for affordable housing, along with new strategies for producing and preserving such housing.

Local innovation was concentrated, in the beginning, on the *production* side of the housing ledger. Municipal governments in Boston, San Francisco, Santa Monica, and San Diego adopted linkage programs, demanding new housing units or in-lieu-of-production cash contributions from the developers of downtown commercial space. Dozens of cities followed the lead of municipalities in New Jersey and California in enacting inclusionary zoning, requiring the developers of residential projects to set aside a specified percentage of affordable units for low- and moderate-income residents. Seattle, Denver, Hartford, Miami, and twenty-seven other cities established housing trust funds, dedicating monies from a variety of local sources to the production of affordable housing. Some cities made use of the federal Community Reinvestment Act or enacted linked deposit ordinances to pressure local banks into making more funds available for housing construction and rehabilitation in lower-income neighborhoods. Other municipalities put their faith in the talisman of "incentive zoning," believing that density bonuses, streamlining, and other regulatory relief might entice for-profit developers into producing the kind of housing that lower-income families could afford.

All of these measures have been widely noted and closely watched by planners, academics, and policymakers. A rapidly developing literature of articles, reports, books, and briefs is documenting the successes and failures of these municipal experiments in housing production. Meanwhile, far less attention has been paid to the other side of the housing ledger. Few commentators on the changing municipal role in housing have noticed that many of these locally generated innovations for *producing* affordable housing have been accompanied by equally creative strategies for *preserving* affordable housing after it is built. They have overlooked a major shift in municipal policy: a new emphasis on perpetuating the affordability of privately owned housing produced or assisted by the public.[2]

This newfound concern for preservation does not yet match the widespread commitment to production. Not every city that adopted new ways of financing and producing affordable housing during the 1980s has been as quick to embrace new ways of owning and controlling such housing once its initial affordability has been secured. There are still cities that do not impose affordability protections on housing produced through municipally sponsored programs like commercial linkage, inclusionary zoning, housing trust funds, density bonuses, and the like. Other cities impose affordability protections only for a short duration.

Such disregard for the long-term fate of publicly assisted, privately owned housing is becoming less common, however, as more municipal officials and community activists have begun to question the timeworn practice of investing scarce dollars in residential projects in which those subsidies may soon be lost. Especially where municipal government has taken the political initiative—and the political risk—of using its powers and resources in creative ways to address local housing problems, many people have questioned the wisdom of working so hard to produce affordable housing if the affordability of those units may soon be lost.

Skepticism about past municipal practice has provided fertile ground for the heretical view that affordability should be preserved as long as possible for housing brought by the dollars or powers of the public within the reach of persons of modest means. This simple, sensible idea is the seed of a new municipal policy. It is changing the way affordable housing is promoted by the public sector. It is changing the way affordable housing is produced by the private sector. It is even changing the way such housing is owned, rented, and resold, as municipal officials and community activists seek new models for making the affordability of publicly assisted, privately owned housing last longer than ever before—perhaps even "forever."

THIRD SECTOR HOUSING

When it comes to the affordability of private housing, the idea of "forever" seems wildly out of place. The average costs of market-rate rentals and market-priced sales have increased far faster in most American cities than average incomes over the last two decades. The "affordability gap" between the income needed to purchase or rent a home and the income earned by the average household has grown wider, a disparity that even the recession of 1990–1992 did not come close to eliminating.[3]

Despite such market realities—indeed, in large measure *because* of them—a policy goal of perpetuating the hard-won affordability of publicly assisted, privately owned housing has gradually gained wider acceptance among municipal officials and community activists alike. So too have various models of privately owned, price-restricted housing designed to achieve this goal: deed-restricted, owner-occupied houses; community land trusts; limited equity condominiums; limited equity (or zero equity) cooperatives; mutual housing associations; nonprofit rental housing; and multiple variations of each.

These new models of housing tenure represent a clear alternative to the more familiar models of both the market and the state: a *nonmarket* alternative to the for-profit rentals and market-priced homeownership of the private sector; a *private* alternative to the publicly owned projects of metropolitan housing authorities or the military. Together with a wide array of nonprofit organizations dedicated to making such models a reality, while expanding the supply of price-restricted housing, these private, nonmarket models of tenure are part of a larger institutional web of activities, organizations, and relationships variously known as *nongovernmental organizations*, the *independent sector*, or the *nonprofit sector*. Severyn Bruyn (1987: 5–6) has dubbed this sector the *social economy*, a new order that is "not a variation of state capitalism or state socialism but a different system . . . evolving in the interstices of modern economies." Its more generic title is the *third sector*, described by Osborne and Gaebler (1992: 44) as follows:

> This sector, it seems to us, is made up of organizations that are privately owned and controlled, but that exist to meet public or social needs, not to accumulate private wealth. By this definition, large nonprofit firms that exist primarily to accumulate wealth would not qualify. But for-profit institutions that exist to meet social or public needs (development banks, for instance) would qualify. For lack of a better term, we call this group of institutions the "third sector."

Over the last two decades, third sector organizations dedicated to meeting the social need for affordable housing have proliferated in the United States. While some operate regionally or nationally, the vast majority are community-based organizations operating in a single neighborhood, area, or town with a governing board recruited from that particular locale. Believed to number nearly 2,000 by the start of the 1990s, these nonprofit, community-based organizations were producing between 29,000 and 45,000 newly constructed or newly rehabilitated housing units every year.[4]

Most of this housing is being produced for people of limited means. A national survey conducted by the National Congress for Community Economic Development in 1991 found that 95 percent of all the rental housing being developed by community-based development organizations and 88 percent of all owner-occupied housing is "targeted to provide decent, affordable shelter for people with incomes below 80 percent of the area median" (NCCED, 1991: 3).

Initial affordability is only one of the attributes of the housing being produced by these community-based nonprofits. A more distinctive (and significant) feature is the *continuing* affordability of much of it. As Rachel Bratt (1989a: 198–199) has observed:

> Although not all community-based developers are committed to maintaining affordable housing, preferring instead to allow cooperative or homeowner units to appreciate as would any privately owned unit, these instances seem to be far fewer than the long-term use restrictions imposed by most contemporary nonprofits. . . . [The] commitment of most community-based housing developers is more similar to the long-range commitment of public housing authorities and contrasts with the relatively short-lived involvement of private, for-profit developers of subsidized housing.

It is the perpetuation of affordability, more than its initial creation, that makes the housing produced by these nonprofit developers fundamentally different from the housing produced by their for-profit counterparts. It is the perpetuation of affordability that removes the products of nonprofit production from the marketplace, turning *nonprofit* housing into *third sector* housing. Not every nonprofit, as Bratt notes, is fully committed to long-term affordability; not every project produced by nonprofits contains housing that is made a permanent part of the private, nonmarket sector situated, in Bruyn's words, "beyond the market and the state." On the other hand, just as more municipalities have realized that hard-earned subsidies and hard-won affordability should be preserved, so too have numerous nonprofits. Much (perhaps most) of the nonprofit housing being produced today is not only *of* the third sector, but securely *in* it.

What does it mean for housing to be securely within this private, nonmarket domain? Such housing has three defining characteristics:

- It is *privately owned*. Title to residential real estate is held by an individual, a family, or a private corporation. The property is owned by neither an instrumentality of the state nor a municipal corporation (i.e., a public housing authority).
- It is *socially oriented*. The property's primary function is to meet the social needs of current—and future—occupants, not to accumulate wealth for the property's owners. While the need for safe, decent, and

affordable housing is paramount here, the property's "social orientation" often includes a collaborative component as well; that is, individual households are linked together in a residential network of pooled risk, mutual aid, and/or operational support.

- It is *price-restricted*. A contractual limit is placed on the future price at which the property's units may be rented or resold, preserving their affordability for a targeted class of low-income or moderate-income residents. Prices are established by a predetermined formula, not by the market. Moreover, these price restrictions do not lapse when the housing changes hands; nor do they expire after a short duration to allow owners to cash in on the housing's appreciated value. By design and intent, the housing is to *remain* affordable far into the future.

This last characteristic requires more comment. Perpetual affordability is, for many of their staunchest proponents, the raison d'être of private, nonmarket models of housing. Ideally, whatever affordability has been achieved at the outset will be perpetuated (and perhaps enhanced) over time. This ideal can prove fairly elusive, however, in the face of shifting organizational, social, or economic realities. Thus, while there is a striving for affordability that lasts "forever," many proponents of price-restricted housing have been willing to settle for something much closer to "long-term": affordability lasting longer than the twenty-year expiration date on many federally subsidized projects; affordability lasting as long as the "useful life" of the housing.

Various names have been attached to such private, nonmarket housing: *nonspeculative housing*, *decommodified housing*, *perpetually affordable housing*, or, when applied solely to homeownership arrangements, *limited equity housing*. A slightly more accessible (though somewhat less accurate) name for the same idea was coined by Commissioner John Papandrea and his colleagues at the Connecticut Department of Housing in the late 1980s. Declaring that "state-assisted housing should be permanently removed from the speculative market," they began directing more resources toward limited equity housing cooperatives, community land trusts, mutual housing associations, and other nonprofit models and organizations committed to preserving "the long-term affordability of housing generated by public funds." They called their policy—and the nonmarket models supported by it—*forever housing*.[5]

Most housing professionals in the United States and Canada tend to prefer *social housing* for describing residential units that are privately owned, socially oriented, and price-restricted. *Third sector housing* is a solid substitute, however—a term that describes the same sort of private, nonmarket tenure as "social housing," while avoiding some of the latter's definitional and political difficulties.[6] Both terms refer to forms of residential ownership that are different from those traditionally employed by either the market or the state; both denote a nongovernmental domain within which the preeminence of social needs over private accumulation is institutionalized—and perpetuated.

What does a municipality do differently once a commitment has been made to support and promote such housing? What does it mean, practically and programmatically, for a municipality to adopt a third sector housing policy? The simplest answer is that such a policy directs an increasing proportion of a municipality's scarce resources toward various models of privately owned, socially oriented, price-restricted housing. The goal here is to expand, year by year, the number of units brought into the realm of these private, nonmarket models of tenure.

A third sector housing policy tends to promote, as well, an increasing municipal reliance on nonprofit, community-based organizations to produce and preserve affordable housing. This represents, as Stegman and Holden (1987), Clay (1990), Mayer (1991), Goetz (1992), and many others have noted, a new kind of housing delivery system. Nonprofit developers are made priority recipients of a municipality's financial and technical largess and are assigned leading roles in implementing that municipality's housing policy.

This second component of a third sector housing policy is inseparable from the first in cases in which a nonmarket model for *owning* affordable housing—and for maintaining affordability—is combined with a nonprofit organization committed to *developing* affordable housing on a continuous basis. The community land trust and the mutual housing association, for example, are two of several models that combine new forms of tenure with an organizational mission of ongoing production.

Social ownership and nonprofit production do not always go together, however. Some nonprofit organizations are effective and sophisticated developers of affordable housing but are not convinced the housing they produce should be removed from the market in order to preserve its affordability—especially when that housing is owner occupied. Conversely, some models of social housing are quite effective at preserving affordability but are not oriented toward expanding their own domains.

Furthermore, not every municipality that has made a commitment to the long-term affordability of publicly assisted housing has chosen to implement that policy through a nonprofit housing delivery system. An effective linkage or inclusionary zoning ordinance, for example, will often extract many more units of price-restricted housing from for-profit developers than a city's nonprofit developers can deliver during the same period of time. To the extent that such municipally mandated restrictions on rents and resales are made to last, and that the affordability of the extracted units is maintained for many years, this housing is made as securely a part of the third sector as the price-restricted units produced by (many) nonprofit organizations.

There is good reason, therefore, to draw some distinction between *nonmarket forms of housing tenure* that preserve affordability and a *nonprofit mode of housing production* that relies primarily upon community-based organizations for its impetus and implementation. A true third sector housing policy will always include the first; it will often include the second.[7]

MUNICIPAL RATIONALE FOR THIRD SECTOR HOUSING

The circumstances under which a municipality comes to support these nonmarket models and nonprofit organizations are as diverse as the politics and personalities that distinguish one city from another. A third sector housing policy is sometimes the result of careful municipal planning; sometimes a response to grassroots pressure; sometimes a by-product of new personnel, new funding, or a new administration. Often, the policy—and its rationale—evolve over time as various aspects of this new approach are stumbled over, tried out, and fitted together piece by piece. Thus a municipal decision to "recycle" scarce subsidies for affordable housing may lead to long-term restrictions on the rents and resale prices of assisted units; this may lead, in turn, to municipal support for nonprofit organizations willing to develop such housing or to enforce such restrictions on the city's behalf. Conversely, a municipal decision to target funds to a successful nonprofit that happens to be developing price-restricted housing may demonstrate the wisdom of "locking in" *all* public subsidies for housing and lead to a broader municipal commitment to long-term affordability.

When considering the most common and compelling reasons why cities have begun adopting third sector housing policies, therefore, it is well to remember that the rationale behind this new approach is often more messy, serendipitous, and after-the-fact than any orderly recitation might suggest.

This caveat aside, I believe it is possible to sort out at least eight different reasons for the growing municipal support of private, nonmarket models of tenure and nonprofit modes of production: the failure of past programs, the scarcity of present resources, limits to growth, the risk of negative externalities, the retreat of private enterprise, the limits of public enterprise, the allure of homeownership, and the limits of residential autonomy.

Failure of Past Programs

The checkered past of much federally assisted or municipally regulated housing, whether publicly or privately owned, has led municipal officials to search for new ways of producing and preserving affordable housing. Public ownership has been widely perceived as a failure, despite the facts that most of the nation's 3,060 public housing authorities are well operated and all guarantee perpetual affordability for the units under their control.[8] By contrast, private ownership that is publicly subsidized, though it has enjoyed far more popularity and political support, has finally been recognized as an accident waiting to happen. All of the rent-stabilized units created through federal programs like Section 236, Section 221(d)(3), Section 8, and Section 515 have continuing affordability under multiyear contracts, but every contract contains an escape clause allowing the private, for-profit owners to opt out at a future date—five to twenty years down the road. Perpetual affordability was never a priority of these federal programs, never a part of the project design. As a result, between .5 million and 1.4 million units of federally assisted, privately owned housing may be threatened with loss during the 1990s unless municipal officials, nonprofit developers, and tenant advocates find enough public money to repurchase, rehabilitate, and refinance numerous projects the public has already paid for once.[9]

Rent control is another public program frequently proposed as a means of preserving residential affordability. Rent control is intended to restrict rent increases in privately owned housing, keeping rents affordable over time. Outside of New Jersey and California, however, the number of American cities employing rent control has never been large, except during World War II. Where rent control has been adopted, moreover, its opponents have nearly always managed to limit its coverage and reduce its effectiveness, either from the start or with later amendments. In some cities, rent control programs with a long history have been repealed altogether. Public controls over the profitability of privately owned housing, when imposed through the police power, have proven easy to attack and difficult to sustain.[10]

Municipal support for third sector housing is a marked departure from these earlier attempts to create a stable supply of affordable housing. Unlike *public housing*, any units constructed or rehabilitated under such a policy are held in private hands. Unlike *federally assisted private housing*, affordability protections are designed to last. Unlike *rent control*, long-term price controls are secured through private contracts, not through a municipality's police power (although this line becomes somewhat blurred in the case of linkage and inclusionary housing programs that *force* a developer to accept a contractual limitation on future rents or resale prices). Each of these features tends to make municipal support for third sector housing more politically palatable than most public programs of the past.

Scarcity of Present Resources

While there has never been enough federal money for low-income housing, American cities experienced drastic cutbacks in what little they had during the 1980s—at a time when their need for these funds was soaring. One federal housing program after another was sharply curtailed or simply eliminated. At the local level, the scarcity of resources resulting from these federal cutbacks forced even conservative politicians and city officials to face the fact they could no longer afford to invest scarce public dollars in neighborhood projects that did not "lock" these subsidies in place. Cities had to do more with less, while keeping what little they had from being siphoned off in short-term gains for a fortunate few.

It was not only the *amount* of money that modified local attitudes about long-term affordability but the *source* of the money that remained. In trying to cope with problems made worse by the federal retreat, municipalities began to extract new resources for affordable housing from local taxpayers, developers, landlords, and banks. Having expended so much of their own political capital on developing resources that were local in origin and limited in amount, municipal officials have been increasingly loathe to squander them on projects with benefits either narrow or transient. As quick as municipalities may have sometimes been to squander federal funds on projects with short-term affordability, they have been much slower to squander their own.[11]

Limits to Growth

There are cities where creating a permanent stock of affordable housing has become an acceptable policy not because of a scarcity of available funds but because of a scarcity of buildable sites. The construction of housing on *empty* sites is constrained by the locality's shortage of lands that are vacant or by the community's protection of lands that are open, wet, or wild. The construction of housing on *occupied* sites is constrained by the developer's cost of demolishing buildings or by the community's protection of buildings with historic, cultural, or sentimental value.

Limits to growth render ineffective any municipal strategy that is dependent upon a constantly replenished stock of newly constructed, low-cost housing to meet the locality's affordable housing needs. Streamlining the permit process, for example, or waiving impact fees so that developers will build more housing for lower-income residents, or writing down the cost of purchasing a home with public subsidies that are later recaptured (sometimes with a share of the home's appreciation) are all strategies that typically allow first-time homebuyers to resell their publicly assisted "starter homes" for whatever the market will bear. Such strategies assume that any affordable housing later lost to the market on resale will soon be replaced by new construction. When replacement becomes impractical, however, preservation becomes prudent. Perpetuating the affordability of housing that already exists becomes both reasonable and acceptable when producing more housing is impeded by a shortage of sites, by a preponderance of sentiment against further growth, or by a hoarded treasure of open lands or older buildings a community holds dear.[12]

Risk of Negative Externalities

Another reason why municipal governments have turned to models of housing that preserve long-term affordability is a growing concern about the unintended consequences of public investment. This is not so much a perception that past programs have failed as a recognition that some of these programs have succeeded too well—but with secondary effects that damaged or disrupted fragile neighborhoods. Deteriorated housing has been improved, public facilities have been upgraded, and disinvested neighborhoods have been "rediscovered" by private lenders. These improvements, however, have often brought higher rents for low-income tenants, higher taxes for homeowners on fixed incomes, the elimination of multiunit housing, and the eventual displacement of disadvantaged classes or races from newly gentrified neighborhoods.

This has prompted a search, in some cities, for alternative strategies of municipal investment and improvement. By targeting their dollars to projects and places with a high proportion of housing units that are perpetually restricted in price and permanently controlled by neighborhood residents, municipal officials hope that public investment can occur without fueling speculation, without promoting the conversion, demolition, or abandonment of affordable housing, and without causing the displacement of vulnerable residents. Their hope, in short, is that investing in third sector housing may be a way to avoid some of the negative externalities that have plagued many municipal initiatives of the past.

Retreat of Private Enterprise

In many areas of the country, the 1980s witnessed a wholesale retreat by for-profit developers and investors away from the production of affordable housing, particularly affordable rental housing. Several factors lay behind this shift. For-profit developers were drawn into the more lucrative business of producing luxury housing for upper-income buyers in speculative markets where real estate values were soaring. Public controls over the use and development of land frequently excluded affordable, multiunit projects from suburban communities. Federal programs that had subsidized the production of low-income rental housing through the use of project-based rental assistance were phased out in favor of tenant-based assistance. Since developers—and their financial backers—could no longer be assured that federal subsidies would *remain* with a project for a predictable period of time, they were no longer willing to build housing for "risky" tenants in "risky" neighborhoods.

The most significant factor in spurring the retreat of private investors, however, was the Tax Reform Act of 1986. The changes wrought by this act were devastating to investment in low-income housing. It lengthened the depreciable life of rental housing from 15 years to 27.5 years; it raised the rate of taxation on capital gains; it increased the minimum taxes and restrictions on passive losses; and it eliminated the favorable tax status of industrial development bonds, which many state and local housing finance agencies had used to provide below-market financing for rental housing. Attempting to offset these disincentives to affordable housing investment, Congress added a tax credit for investors in housing projects serving low-income tenants. This tax credit, however, proved technically burdensome and generally unworkable without additional public subsidies, which became less plentiful during the late 1980s, not more.[13]

The disappearance of profit-oriented investors from the affordable housing field created something of a vacuum. If housing was still going to be constructed and rehabilitated in lower-income neighborhoods, municipal officials were going to have to find new investors and new partners to fill this void. They discovered, in some cities, a nonprofit infrastructure of community-based organizations ready and willing to play this role. In other cities, municipal officials had to create or nurture this infrastructure themselves. Sometimes by default and sometimes by design, nonprofit developers were soon receiving in one city after another the lion's share of whatever money a municipality still had available for affordable housing.

Limits on Public Enterprise

That public housing has historically had difficulty winning and sustaining popular support has already been mentioned, as has the opposition that has regularly been mounted against public controls over private rents. Little more needs to be said on either count. It is important to point out, however, that these political constraints on municipal "interference" in the private real estate market may be matched by political, financial, or legal constraints that limit a municipality's ability to develop, own, or manage housing units with long-term controls over their affordability. A particular municipality may have neither the capacity within its staff nor the authority within its charter to play such an activist role in producing and preserving affordable housing.

Municipal support for price-restricted models of social housing—and for the nonprofit developers of such housing—allow a city to operate within these constraints even while exceeding them. These models and organizations, which are situated within the private sector but allied with the public sector, can extend the reach of municipal government, attracting funds, pursuing projects, and taking risks a municipality may not. Equally important, because these nongovernmental organizations have members and constituencies of their own, they can engage in the kind of grassroots organizing and outreach that municipal officials must avoid, thus expanding the base of political support for a particular administration or a particular policy.[14]

Public-private partnerships between municipal housing agencies and nonprofit housing developers, in short, can serve as something of a strategic end run around ideological, financial, or political limits that can render a city all but helpless in addressing complex problems like affordable housing. Activist administrations forced to operate passively within such constraints have discovered in their partnerships with third sector organizations the means to do more while playing by the rules of a local status quo that would have them do less.

Allure of Homeownership

Third sector housing encompasses many models of privately owned, socially oriented, price-restricted housing, including several that come close to traditional owner-occupied housing. Generally known as *limited equity housing* or *limited equity homeownership*, these models have held great appeal for municipal officials who had hoped to help selected tenants to become independent homeowners but who discovered that public funds were inadequate to close the widening gap between tenancy and homeownership.

Reluctant to abandon their original plans because of either an ideological commitment to homeownership or a political commitment to constituents, these officials have become increasingly receptive to new forms of private, nonmarket housing that bring homeownership within the reach of lower-income tenants.[15] They have come to realize that what is needed—and what is possible with meager municipal resources—is the introduction of *new* rungs into the local tenure ladder, new forms of limited equity housing that allow people of modest means to climb out of housing situations that are presently precarious and toward those that are more secure.[16]

Limits of Residential Autonomy

Finally, municipal support for third sector models and organizations is rooted in the belated realization by some housing officials that neither homeownership nor tenancy, as traditionally conceived in the United States, may be appropriate for every household, even if initial barriers to access are eliminated. Whether prospective homeowner or permanent tenant, every household is expected to bear individually the costs and risks of gaining and retaining residency in a separate unit. Yet many people do not possess the income, skills, physical health, or mental capacity to find their way individually to safe, decent, affordable housing—or to keep such housing once it is theirs. Many other people cannot bear individually the burdens and risks of owning a home or negotiating the terms and conditions of a lease.

Housing professionals inside and outside of government have been slow to acknowledge that many people are ill-equipped for the independent living that market housing demands and need various kinds of support to be successfully housed.[17] They have been even slower to recognize how inappropriate and inaccessible much of the existing supply of housing has become in the face of the changing demographics of the American household, especially the surging growth in single-person households and single-parent families. These "atypical" households are not easily accommodated by tenures and types of housing typical to most housing markets in the United States.[18]

As housing professionals have begun to recognize these social realities, they have begun to acknowledge the importance of the kind of collaboration and mutual aid that characterizes most forms of social housing: the burdens and risks of housing are shared, scarce financial resources and scant personal clout are pooled, and separate households are linked together in common cause. Although the benefits of such residential collaboration are not confined to persons with special needs, persons whose lives are physically or financially precarious clearly have the most to gain from forms of tenure that do not force everyone to "go it alone."[19]

Residential autonomy is unattainable, unsustainable, or unacceptable for a growing number of people. Most forms of social housing acknowledge that fact and attempt to do something about it. Most forms of market housing do not.

THIRD SECTOR HOUSING IN STATE AND FEDERAL POLICY

By the 1990s, public support for third sector models and organizations had become a significant ingredient in the general mix of municipal housing programs in a number of American cities. In a few, it had become the touchstone for nearly every policy and every program affecting the construction or rehabilitation of affordable housing.

Above the municipal level, a similar shift in public policy has begun to occur, although belatedly and more slowly. Twenty-eight states established housing trust funds in the last decade. Many of them, like the trust funds created by municipal governments, require assisted housing to remain affordable for multiple years as a condition of public support. Several states have gone even further in their commitment to the continuing affordability of publicly assisted, privately owned housing—and to the nonmarket models and nonprofit organizations that make such housing a reality. Connecticut's "forever housing policy" has already been mentioned. Despite a change in administration in 1990 and several years of fiscal belt-tightening, Connecticut's programs for cooperatives, community land trusts, and other nonprofits guaranteeing the future affordability of state-assisted housing have survived. Vermont has made perpetual affordability a threshhold criterion for most state assistance for affordable housing since 1987. Other states, such as Massachusetts and Minnesota, have made extraordinary financial commitments to limited equity housing cooperatives and to nonprofit developers of price-restricted rental housing.[20]

At the federal level, meanwhile, much less interest has been shown in third sector housing until recently. National support for these nonmarket models and nonprofit organizations has been confined largely to a few leftover programs from the past. Abundant funding for the nonprofit provision of elderly-occupied rental housing was once available under HUD's 202 program. Modest funding for the development of housing cooperatives was once available under a variety of federal programs.[21] By the late 1980s, most of these programs were gone, however, and those that remained were starved for funds.

Outside of the United States, third sector housing has fared far better. Indeed, a number of Western countries have long made federal support for social housing and nonprofit production a prominent part of their national housing programs. Sweden, Denmark, and Canada have gone the farthest in this regard, although France and West Germany have also given substantial assistance to various forms of tenant-owned cooperative housing with long-term controls over rents and resales. In Sweden, where Social Democrats have been in power almost continuously since 1932 (except for 1976–1982), government planning and funding have combined to steer new housing construction away from the private, for-profit sector and toward a combination of publicly owned rentals and private, price-restricted cooperatives.[22] In Denmark, where public housing is almost nonexistent, governmental support for affordable housing has centered on grants, low-interest loans, and other construction subsidies for nonprofit and cooperative associations. Fully half of all housing units constructed in Denmark between 1945 and 1970, note Gilderbloom and Appelbaum (1988), were constructed by these third sector organizations.[23]

Canada, too, has given major support to third sector housing. During the 1950s and 1960s, governmental funding for low-income housing was centered on a public housing program similar to that of the United States. In 1973, however, as the U.S. was busily replacing its public housing program with subsidies and incentives for private, for-profit developers, Canada decided to pursue a different course. The national government began directing an increasing share of its housing funds into the hands of zero equity housing cooperatives and nonprofit developers of price-restricted rental housing. By the early 1980s, almost all federal subsidies for new housing were being directed into this third sector, and about 25,000 new units were being produced each year. Although the annual production of social housing had dropped to 18,000 new units by 1988, after successive cutbacks by a Conservative government elected in 1984, this was still an extraordinary level of housing activity; it represented "about the same number," observe Dreier and Hulchanski (1990: 121), "as HUD subsidized that year for a country with ten times Canada's population."

There is little likelihood that the United States will soon be following Canada's lead, even under the first Democratic administration in a dozen years. Nevertheless, there are signs that third sector housing may finally be finding a niche in U.S. policy. A new receptiveness to the kinds of housing long supported by Canada and by other Western democracies is especially evident in the Cranston-Gonzales National Affordable Housing Act (NAHA) enacted in 1990. Title II of NAHA mandates long-term affordability as a condition of funding for both rental and owner-occupied housing. This section of NAHA, known as the HOME program, requires assisted *rental* housing to "remain affordable, according to binding commitments satisfactory to the Secretary, for the remaining useful life of the property" and assisted *owner-occupied* housing to carry resale restrictions that "ensure that the housing will remain affordable to a reasonable range of low income homebuyers." Furthermore, HOME supports the expansion of a nonprofit housing delivery system through a 15 percent set-aside of available funds for "community housing development organizations" (CHDOs). Since HOME holds out the promise (if it is ever fully funded by Congress) of billions of dollars for affordable housing, even jurisdictions that have yet to embrace long-term affordability, nonmarket models, and nonprofit organizations may be tempted to do so.

On the other hand, NAHA has been derisively described as "one law, two programs, no policy" (Rapp, 1991: 73). One of these programs, HOME, *is* a hopeful sign of growing public support for new models of long-term affordability and new modes of community-based development. Clouding this sunny assessment, however, are subsequent revisions undertaken by HUD and Congress that obscure NAHA's original commitment to perpetuate the affordability of HOME-assisted units.[24] A colder shadow is cast by NAHA's second new housing program, known as HOPE (Homeownership Opportunities for People Everywhere). Aggressively promoted by former HUD Secretary Jack Kemp, HOPE was designed to reduce further the government's role in providing affordable housing by moving publicly owned and publicly assisted housing back into the marketplace. Thus, while HOME has the potential for expanding the supply of price-restricted housing, HOPE has the purpose of shrinking the supply that already exists.

At the national level, Congress will be wrangling over the relative merits of these contradictory approaches to affordable housing for many years, despite Kemp's departure from HUD. To an unusual degree, however, the outcome of this national debate over HOME and HOPE will be shaped by what happens at the local level. Indeed, NAHA presents local proponents of third sector housing with two opportunities. The first is to take full advantage of the preferential treatment NAHA offers nonprofits to produce and preserve a significant quantity of affordable housing. As Barry Zigas, former president of the National Low-Income Housing Coalition, has pointed out, "If the nonprofit housing sector cannot prove it is at least equal to the modest tasks in the statute, it's unlikely they'll ever be offered a larger role" (1991: 8).

The second opportunity presented by NAHA is for municipalities to use whatever funds are made available for both HOME and HOPE to expand the local supply of privately owned, socially oriented, price-restricted housing. Municipal governments are given the option, under the rules for HOME and for HOPE, of extending the minimum periods of affordability for housing assisted through these programs (though such extensions are difficult, at present, for HOPE). They have the option, as well, of exceeding the minimum amounts set aside for Community Housing Development Organizations. They may invest funds from both these federal programs, in other words, in nonmarket housing and in the nonprofit sponsors of such housing.

Such a third sector housing policy may eventually prove the best way—perhaps the only way—for cities to resolve the programmatic contradiction that Washington's warring political factions have dumped in their laps. If successful, local housing officials and their nonprofit partners may end up fashioning not only a municipal policy for the 1990s, but a national policy as well. As David Rapp has observed: "The more innovative among them will probably find a way to do what Congress couldn't: put HOME and HOPE together into a coherent housing program. Given the federal government's inability to provide clear direction, local officials will have to be the true architects of U.S. housing policy in the 1990s" (Rapp, 1991: 73).

THE AFFORDABLE CITY: CONTENT AND CONTEXT

Despite the interest now being shown by state and federal authorities, third sector housing remains essentially a local phenomenon. It is in the neighborhoods of America's cities that the nonmarket models and nonprofit organizations that are the mainstays of this innovative policy have had their earliest success. It is in the chambers of city government that this idea of perpetuating the publicly subsidized affordability of privately owned housing has had its first hearing. It is at the local level, too, that such price-restricted housing has faced—and will continue to face—its stiffest test, as tenants and homebuyers of modest means are asked to wager their fortunes on this new approach to affordable housing being better than the old.

Since third sector housing is an innovation that has percolated up from the bottom more than it has trickled down from the top, this book is about the affordable *city*. Its subject is municipal policy and various programs, models, and organizations functioning primarily at the neighborhood level. Its purpose is to address, descriptively and analytically, such basic questions as: Why are some municipal governments reorienting their support for affordable housing toward privately owned, socially oriented, price-restricted housing and toward its nonprofit, community-based sponsors? What models are being used to implement this policy? What resources are needed to make this policy a success? What barriers stand in the way?

The book's overall purpose is rhetorical and strategic, as well. Arguments for third sector housing are presented with a view toward persuading public officials, city planners, and community activists of the wisdom and worth of this innovative approach to affordable housing. Arguments against third sector housing are treated as problems to be solved: predictable obstacles in the political landscape in which this policy must make its way; correctable flaws in the models, organizations, and partnerships that make the policy a reality. Practitioners who would adopt such a policy need to know not only how to answer the objections of their opponents but how to enhance the effectiveness of their programs. Consequently, arguments on behalf of third sector housing yield quickly in the coming chapters to critical assessments of obstacles and flaws and to practical strategies for removing both.

Although the practice of third sector housing is clearly the focus of *The Affordable City*, any discussion of this innovative policy and of the models and organizations supported by it cannot be separated from a number of larger theoretical and political debates. The most interesting pertain to the privatization of publicly assisted housing and the surprising emergence in the United States of the "progressive city." A third sector housing policy also raises important questions about public innovation in a time of economic restructuring. These issues provide a general context for the more specific content of *The Affordable City.*

Privatization

The ascendancy of conservative ideologies during the 1970s and 1980s, especially in Britain and the United States, produced national housing policies with the dual aim of transferring responsibility for housing provision from the public sector to the private sector and removing regulatory constraints imposed by the public on private enterprise. The principal assumptions behind these policies were: (1) the public sector is the principal cause of housing shortages; (2) the private sector can deliver affordable housing at a lower cost and with greater efficiency than the public sector, particularly if government can be gotten out of the way; and (3) the poor can be "empowered" by purchasing the public-assisted housing in which they currently reside as tenants. By becoming homeowners, the poor can gain not only greater control over their lives, but greater wealth from their homes, reaping the same rewards from appreciating property values as any other homeowner.

Privatization in Britain during the 1980s focused mainly on the sale of council housing to current residents. More than a million units of publicly owned housing have been sold in this way (Forrest, 1991; Forrest and Murie, 1988; Kleinman, 1990). In the United States, the privatization of federal housing policy by the Reagan administration focused more on impoverishing the public sector than on transferring public assets into private hands. One housing program after another was either sharply curtailed or terminated altogether.[25] This funding picture improved only slightly under the Bush administration, although privatization was pushed in new directions by HUD Secretary Jack Kemp, a vocal advocate for both the deregulation of housing construction and the private ownership of public housing. The first initiative was embodied most clearly in Kemp's Advisory Commission on Regulatory Barriers to Affordable Housing (1991); the second in eighteen HUD demonstration projects turning over the management (and eventual ownership) of some two thousand units of public housing to their residents. This "Public Housing Homeownership Demonstration," proposed by Kemp when he was still a member of Congress,