A Charlotte Housing Tour

Programs and Preferences of Government

by Steve Johnston

Break the myth that the term "government housing programs" refers only to give-aways to the poor. Then the state will be prepared to weigh the options, and make the difficult choices, that will confront North Carolina as economic realities and the declining role of the federal government alter the housing market of the 1980s.

In Charlotte, the state's largest city, one can find examples of most of the forces that have shaped the state's housing patterns since World War II. The experiences of this single city illustrate how government at all levels shapes housing resources, how housing programs now on the books are benefiting widely varying economic groups, how many "housing" programs also serve other public purposes, and how every program can be made to work and every economic group can be assured of housing – for a price. As the last decade in Charlotte has shown, sustaining political support for housing initiatives, which by definition are expensive, controversial, or both, is extremely difficult.

Since World War II, the predominant governmental influence over housing resources has been the funding, programs, tax deductions and shelters, and other rules and regulations that the federal government channeled to the local level, both to municipal governments and to the private sector. A short tour of Charlotte will illustrate some of the many ways the programs and preferences of government have affected the housing market. Such a tour can also highlight some telling trends to state officials, who must prepare for an increasingly important role in the housing field.

Steve Johnston is on the staff of The Charlotte News.
Photos by Steve Johnston.

A Tour of Charlotte

As a result of a post-World War II building boom, Charlotte is ringed by suburbs – a pattern typical of 1980s America. Low-interest-rate mortgages from the Veterans Administration and the Federal Housing Administration have fueled this suburban sprawl, together with the federal income tax deduction for interest paid on home mortgages. Middle- and upper-income families have been the chief beneficiaries of this government largesse. Today, even though a very mobile population lives in Charlotte, more than half of the city's housing units are owner-occupied. A variety of federal programs have made this home ownership possible, and various rental programs have also left their mark in Charlotte, as the tour below shows.

• **Fourth Ward.** In a 13-square-block area a stone's throw from the center of the city, where slums stood only a decade ago, people now tend their $50,000 to $120,000 condominiums and restored Victorian homes. The neighborhood's turnaround was made possible by federal tax law, which eliminates the tax on the interest from loans made to municipalities for the purpose of financing urban renewal. Relieved of the tax burden, the lenders, led by North Carolina National Bank, loaned money to the city at rates far below market rate. The city, in turn, lent the money to homeowners who, for the lower interest rates, were willing to take the risks of moving back downtown. Thus a federal tax policy designed to encourage urban renewal has, along with the pluck of the residents and the commitment of lending institutions, made Charlotte's much-touted "Fourth Ward" a success story.

• **"North Charlotte" Neighborhood.** Blue-collar workers live in older mill-village housing rehabilitated with loans and grants made possible through the federal Community Development Act of 1974. In this and eight other neighborhoods, the city has invested about $6 million in federal funds – a quarter of it in rehabilitation, the rest in land acquisition, new public utilities like streets, social service programs, and overhead. In a tenth neighborhood, housing was razed to redevelop the land for urban industrial uses.

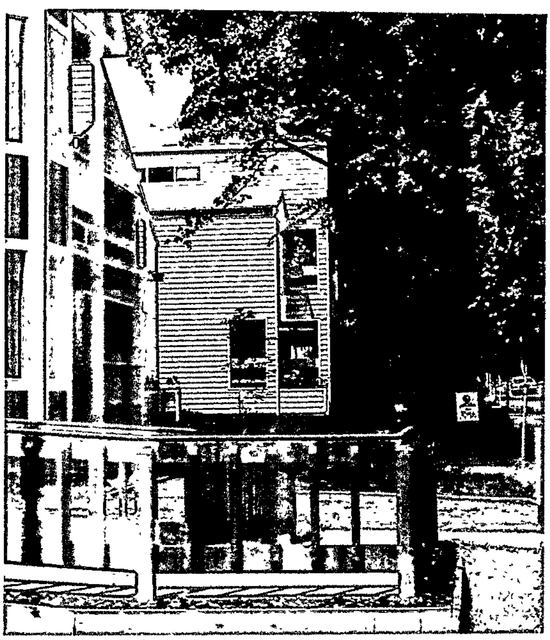
• **Fashionable Suburbs.** Across town stand luxury apartment complexes financed by limited partnerships of investors who are sheltering income from federal taxation.

• **Declining Neighborhoods.** Peppered throughout the city, substandard housing, rather than being repaired, is sometimes destroyed while the landlord retains the land, which is the primary investment. A landlord can thus make a capital gain on the land, and in the process, deduct property taxes and other expenses from tax liabilities. In the meantime, the lot sits vacant, often a blight on the neighborhood.

• **Pine Valley and Windsong Trails.** In two subdivisions developed in the early 1970s, working families who are unable to finance mortgages rent single-family homes from the Charlotte Housing Authority. Part of their rent goes toward a mortgage downpayment. After five years of renting, each family should be able to begin enjoying the fruits of home ownership.

• **Southwest Charlotte.** Just off Interstate 77, 500 families, some of them relocated from downtown urban renewal areas in the 1960s, live in immaculately kept, investor-owned apartment buildings. If they meet an income test, residents get below-market rental rates – a condition built into the investors' mortgage contract with the Federal Housing Administration.

• **Plaza-Midwood.** On the declining edge of this early 1920s residential area, owners are using low-interest loans from the Neighborhood Housing Services' program to rehabilitate their old homes. The difference between the low interest rate charged owners, and the higher rate at which the loans are bought by a consortium of insurance companies at the national level, is made up from two sources. Some cash comes from contributions made by local lending institutions seeking federal tax advantages or meeting their responsibilities under the federal Community Reinvestment Act. But most of the money has so far come from City Hall, where federal general revenue sharing funds



Federal tax laws encouraged restoration of Charlotte's Fourth Ward – condominiums (opposite page) and spruced-up older homes (above) – in a downtown area that was deteriorating 10 years ago.

Working families rent these homes in Pine Valley from the Charlotte Housing Authority.

were used to implement the City Council's commitments to shoring up older residential areas. (See article on page 29 for background on Neighborhood Housing Services.)

• **Cherry.** In this 60-year-old community, built for domestics serving the upper-income Myers Park area, two landlords who owned most of the 260 housing units insisted that housing rehabilitation would not be profitable. The city used block grant funds to buy out the landlords. Now the city is funneling more block grant funds through the neighborhood's community organization to pursue rehabilitation.

• **Earle Village.** Six blocks from the heart of restored Fourth Ward, 1,400 poor people live in conventional public housing. Rents at Earle Village, the 409-unit complex in First Ward, combined with rents from the Charlotte Housing Authority's 3,000 other non-elderly units at 16 more sites around the city, pay only half the Authority's operating expenses. Despite that, the Authority and others like it throughout the country may face up to a 25 percent cut in federal operating subsidies from Washington this year. To make ends meet, the Authority struggles to achieve rent distribution goals that call for 42 percent of its tenants to be paying $100 or more a month and only 22 percent paying less than $40 a month. In July 1980, its actual rent distribution was 27 percent paying $100 or more and 29 percent paying less than $40. To change the rent distribution, the Authority must give preference to families with the highest allowable incomes and turn away those needing help the most.

To build new public housing in compliance with federal rules and local commitments to scatter public housing, the city has paid both a financial and political price. The city will foot six percent of the cost of 165 public housing units at four sites now under construction. All the city money is going for land purchases. The political cost has been borne by the City Council, which has found housing policy to be among its most controversial and time-consuming issues in the past five years.

• **Multifamily Units.** At some 100 addresses across the city, investors are rehabilitating housing units through the federal Section 8 moderate rehabilitation program. For agreeing to rent to tenants eligible for federal monthly rent subsidies, after bringing the housing up to housing code standards, the investors get guaranteed market-rate rents and protection against extended vacancies.

• **Third Ward and Five Points.** In these two "community development" neighborhoods, a nonprofit corporation, using the Housing Authority as agent, will build 61 housing units with $1.5 million in block grant monies. Rental priority will be given to poor residents of the neighborhoods displaced by renewal activity. With all construction costs already paid by block grant funds, rents will only have to cover operating costs and can thus be kept low. (See article on page 16 for background on the Community Development Block Grant.)

• **Apartment Complex.** Housing Authority bonds, authorized by a state statute that first allowed North Carolina local housing authorities in 1935, have helped a nonprofit group purchase a long-vacant apartment complex for rehabilitation. Low-interest Housing Authority bonds were used to purchase the complex because market-rate financing, on top of financing the repairs, would have raised rents above what the low-income neighborhood could command.

• **Belmont-Villa Heights.** In 1981, a group called Jeremiah 29:7,* formed by seven Charlotte churches, targeted this neighborhood, an area just north of downtown, for attention. Seeking church participation in low-income housing problems, the group plans to rehabilitate existing housing and buy vacant lots for construction of inexpensive housing. The group hopes to keep costs down by using labor of church volunteers and prospective homeowners to supplement professionals. The key to making the program result in homes neighborhood residents can actually afford will be a $1.5 million capital fund of donated money. Homeowners will repay to the capital fund the price of their homes, but will be charged no interest.

• **Scattered Enclaves of Poor People.** Throughout the community, from Sterling in the southwest to an unincorporated area just north of the city's Derita area, live most of Charlotte's poor and near-poor. Their spendable dollars come from disparate sources – work, Social Security, Aid to Families with Dependent Children, and Supplemental Security Income. But they share one thing in common: They live in privately owned housing, unassisted by any federal, state, or local program. Most of them will be untouched by even the most ambitious state housing program, whatever form it takes. Their housing problems, to the extent that they have them, will continue.

Lessons from the Tour

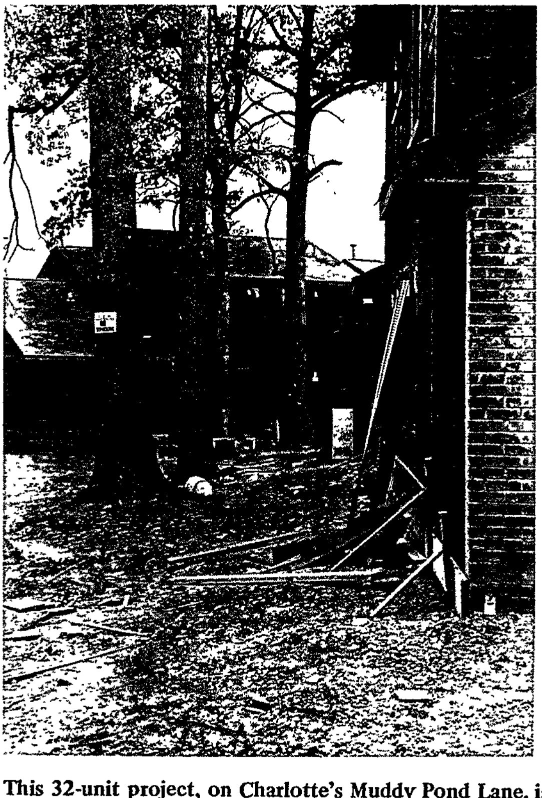
State policymakers are well aware that many of the programs behind these Charlotte housing activities may disappear in coming months or years. Both the President and members of Congress, for example, are flirting with a "flat tax" scheme which, in some of its forms, would eliminate such deductions from the Internal Revenue Code as the home mortgage interest break which has fueled home ownership, tax-sheltering deductions which make housing investments attractive both for individuals and corporations, business deductions which helped banks commit to Fourth Ward-type low-interest loan programs, and charitable contributions on which nonprofit groups like Charlotte's Jeremiah 29:7 depend. Elimination of some or all of these tax programs could substantially dislocate the state's housing industry and cause massive changes in the state's housing resources.

More specifically, federal housing programs are already in decline. While Congress' 1983 budget will include some housing funds, a variety of federal programs have been cut back, from Farmers Home Administration funds to Section 8 assistance to public housing subsidies. The loss of federal programs, or their revision into block grants to the state, may leave North Carolina more administrative flexibility, but also more responsibility, for determining how to allocate government resources for housing.

Charlotte's experience with housing programs holds no magic formulas to guide the revision of state housing policy. But this review of housing patterns in Charlotte does suggest five observations.

1. **Government has had a major influence on the housing market, and housing programs, collectively, have benefited persons of all income groups.** Depending primarily on how the federal housing priorities are reshaped, both rich and poor alike may pressure for state action to benefit their particular economic group.

2. **Individual housing programs now in existence tend to benefit specific economic groups.** Tax deductions on mortgage interest, for example, are no incentive to the poor with little tax liability. Tax programs designed to encourage private investments in housing will allow investors to make a profit off rents lower-middle-income families can pay, but not from rents of low-income families.



This 32-unit project, on Charlotte's Muddy Pond Lane, is one of four "scattered site" low-income public housing projects under construction in the city.

*Jeremiah 29:7: "But seek the welfare of the city where I have sent you into exile, and pray to the Lord on its behalf, for in its welfare you will find your welfare."

3. **No program can provide housing for the poorest of the poor without ongoing subsidy.** The Housing Authority uses a combination of federal operating subsidies and the higher rents of better-off tenants to subsidize the operating costs of lowest-income tenants. In the nonprofit group's construction project of 61 units for low-income displacees, the Housing Authority calculates that what Five Points tenants (requiring two-bedroom units) can pay will cover only 52 percent of its operating costs. The city of Charlotte, under court order to provide housing for all households displaced by its renewal activities, has agreed to make up the difference.*

4. **State housing programs can – and should – serve other state priorities such as employment, transportation, education, and balanced growth.** The cost of housing must be assessed in the context of spillover benefits. Two Charlotte experiences illustrate how housing can serve multiple public purposes. First, new housing activity in near-downtown Charlotte neighborhoods not only created housing but also stimulated commercial activity, made downtown office space more attractive to relocating businesses, eased commuter transportation arteries, and gave the downtown core a round-the-clock presence essential for vitality. Second, scattered-site public housing has not only housed poor people but also dispersed the poor and reassured non-poor neighborhoods that dispersal would affect all parts of town more or less equally. In Charlotte, scattered sites have also been perceived as playing a role in the long-term easing of the rigors of the nation's first court-ordered school busing plan.

5. **Subsidized housing developments tend to be economically rigid.** The best example is the home ownership program called "Turnkey III" which was begun in the late sixties and suspended in 1973. Under this program, the public housing tenants' monthly payments went toward ownership of their single-family units. Additionally, the tenants were required to build up "sweat equity" in their homes by providing all routine repair and maintenance themselves. Charlotte's experience with the program mirrored the national pattern: Most tenants did not stay long enough to accumulate the equity required for ownership. The Turnkey III units in Charlotte remain 94 percent renter-occupied today.

Conclusion

As North Carolina policymakers consider the future of the state's housing stock, they must make some choices. No single "housing program" can serve all types of goals. For example, the state could give municipalities more flexibility in meeting local housing needs. The purposes for which revenue bonds and property tax revenue may be expended could be revised, for example, to allow cities to use these local sources of revenue to meet local needs.

In the long run, the state faces a complex dilemma. All housing costs money, and the state no longer has surplus revenues. *Annual appropriations required for statewide housing initiatives vary inversely with the income of the target group.* The state must choose, then, whether to spread its resources thin, providing a small subsidy to a wide range of people, or to invest more heavily in housing, which will allow assistance for poverty-range persons.

If the state spreads its resources thin, such programs will generally gain the cooperation of housing developers, particularly when the housing market is flat. The beneficiaries of such a policy will be middle class or near middle class, persons who pose the fewest risks for lenders and developers.

If the state makes a greater investment – and indicates a willingness to become more directly involved in the housing process – it can also create housing for poverty-range North Carolinians whose income will not support market-rate housing. To create housing for the poorest of the poor without expensive – and politically vulnerable – annual operating subsidies, the state could explore such techniques as combining construction grants with escrow accounts which would supplement tenant rents to cover operating costs. But only with the greatest investments – and a taste for long-term involvement akin to the state's commitment to education – can the state serve the housing needs of those who need housing the most.

The state must face, then, a difficult long-term dilemma: To what extent will it invest in the housing process and to whom will it target resources? How the legislature and the Hunt administration resolve these questions will reveal more than any policy statement about housing. In the end, articles like this one must carefully note what is perhaps all too obvious. The difficulty of insuring that all North Carolinians live in decent, safe, modern housing results not from there being inadequate housing programs – but from there being inadequate income resources among many of its citizens. □

---

* In 1981, the city of Charlotte agreed in a court settlement to spend $500,000 from their federal general revenue sharing funds during each of the fiscal years 1982, 1983, and 1984 "for the purpose of providing housing for low-income relocatees," so long as this federal program continues during those years (Court order issued May 29, 1981, by U.S. District Judge James B. McMillan for the western district, *Harris-Kannon* v. *City of Charlotte,* Case No. 2767). This settlement is only one element of a complex, 12-year-old case still before that federal court.