

THE JOHN T. DUNLOP LECTURE

WITH

HENRY G. CISNEROS



JOINT CENTER FOR HOUSING STUDIES
OF HARVARD UNIVERSITY

HARVARD DESIGN SCHOOL • JOHN F. KENNEDY SCHOOL OF GOVERNMENT

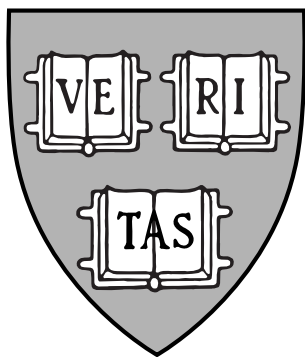
SEPTEMBER 29, 2003

SPONSORED BY
THE NATIONAL HOUSING ENDOWMENT

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Delivered on September 29, 2003 at the Harvard Design School, Piper Auditorium

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Established in 1959, the Joint Center for Housing Studies is a collaborative unit affiliated with the Harvard Design School and the Kennedy School of Government.

The Joint Center illuminates the role of housing in shaping communities and outlines the ways in which housing policy and practices are shaped by economic and demographic trends. Through research, education, and public outreach programs, the Joint Center informs debate on critical housing issues and provides leaders in government, business, and the non-profit sector with knowledge and tools for formulating effective policies and strategies.

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HISTORY OF THE JOHN T. DUNLOP LECTURE AT HARVARD UNIVERSITY

The John T. Dunlop Lecture commemorates the life and work of the late John T. Dunlop, Lamont University Professor *Emeritus* of Harvard University from 1985 to 2003 and United States Secretary of Labor during the Ford administration. In a lifetime career dedicated to improving labor-management relations, Professor Dunlop's skillful arbitration and negotiation led to celebrated dispute resolutions in academia, industry, and government.

Professor Dunlop was also a widely respected leader in the nation's housing and construction related communities. In 1970, he played a key role in establishing the Policy Advisory Board of Harvard's Joint Center for Housing Studies. Under his guidance, this board of housing industry leaders and the Joint Center significantly helped to shape housing policy and to advocate for policies to insure quality homes for all

Americans. Joint Center director Nicolas P. Retsinas remarked: "John Dunlop was a master bridge-builder. He consistently connected the academy with industry. His insights and his integrity served him well in both worlds. The Joint Center for Housing Studies is a lasting legacy to his perseverance and to his dedication to informed public policy."

Professor Dunlop was chairman of the Construction Industry Stabilization Committee from 1971-1974, and was instrumental in establishing the National Institute for Building Sciences. He served on the board of the National Housing Endowment and in 1986 was inducted into the National Housing Hall of Fame by the National Association of Home Builders.

In 1999, the Joint Center for Housing Studies partnered with the National Housing Endowment and the Harvard Design School to create a named lecture that would serve as a lasting tribute to Professor Dunlop and his many contributions to the national housing community. The John T. Dunlop Lecture was established and would bring a housing leader to the university each year to highlight the importance of housing as a policy and research area.

The fifth speaker in this honored tradition is Henry G. Cisneros, Chairman of American CityVista and former United States Secretary of Housing and Urban Development. Previous lectures have been delivered by the following distinguished housing and community leaders:

ANGELO R. MOZILO (February 4, 2003)
The American Dream of Homeownership: From Cliché to Mission

HERBERT V. KOHLER, JR (October 29, 2001)
Designing Form and Function in the American Home

BARBARA T. ALEXANDER (October 12, 2000)
*The U.S. Homebuilding Industry:
A Half-Century of Building the American Dream*

KENT W. COLTON (May 4, 1999)
Housing at the Millennium

The lecture also honors Professor Dunlop's accomplishments as a scholar and administrator. He began his Harvard career in 1938, becoming associate professor of economics in 1945 and full professor in 1950. He chaired the Economics Department from 1961 to 1966, and while serving as dean of the Faculty of Arts and Sciences from 1969 to 1973, led the faculty-student University Committee on Governance. He was appointed Lamont University Professor in 1971.

During his tenure at Harvard, Professor Dunlop was instrumental in founding many academic programs, including the Trade Union Program (now the Labor and Work Life Program); the Ph.D. Program in Business and Economics; and the Program in Business and Government. Harvard President Lawrence H. Summers commented: "John Dunlop was a towering figure in Harvard's history. As a scholar, dean, secretary of labor, and an adviser to countless institutions, John Dunlop was a major contributor to the life of our nation and to our university."

Professor Dunlop's leadership extended into his government service. In addition to serving as secretary of labor from March 1975 to January 1976, he served as an adviser to many United States presidents beginning with Franklin D. Roosevelt. His many government posts included director of the Cost of Living Council (1973-74), chair of the Commission of the Future of Worker/Management Relations (1993-95), chair of the Massachusetts Joint Labor-Management Committee for Municipal Police and Firefighters (1977-2003), and chair of the Commission on Migratory Farm Labor (1984-2003).

Professor Dunlop's numerous books and articles advanced the understanding of labor relations. His contributions included, *Wage Determination Under Trade Unions* (1944); *Collective Bargaining: Principles and Cases* (1949); *Industrial Relations Systems* (1958); *Labor in the Twentieth Century* (ed., 1978); *Dispute Resolution, Negotiation and Consensus Building* (1984); and *A Stitch in Time: Lessons from the Apparel and Textile Industries* (with Abernathy, Hammond, and Weil, 1999).

Professor Dunlop's impact was vast and profound. Former Harvard president Derek Bok said of his colleague: "John Dunlop led a remarkable life. As a teacher, he helped develop generations of labor economists. As a scholar, he was a leading figure in furthering our understanding of labor markets and institutions. As a practitioner, he played an indispensable role in finding common ground between labor unions, employers, and government."



BIOGRAPHY OF HENRY G. CISNEROS

Henry G. Cisneros is Chairman and CEO of American CityVista, a community-building joint venture with KB Home constructing homes in the central areas of cities across the nation. American CityVista's focus is to build significant numbers of homes - "villages within the city" - in the central neighborhoods of major metropolitan areas. The joint venture of American CityVista and KB Home has resulted in thousands of reasonably priced homes in urban areas of Los Angeles, Dallas, Ft. Worth, Houston, Austin, and the Rio Grande Valley, with plans for expansion which include Phoenix and Atlanta.

Cisneros is also Chairman of Pacific City Homes, an urban housing fund, backed by the California Public Employee Retirement System and Washington Mutual to help builders create affordable infill housing in California. He is also Chairman of the Board of Ventana Homes, a builder of affordably-priced homes in smaller cities in Texas, such as

Waco and Eagle Pass, and he is founder of American Sunrise, a non-profit housing corporation, in San Antonio.

Previously, Cisneros was President and Chief Operating Officer of Univision Communications in Los Angeles, the Spanish-language broadcaster which has become the fifth-most-watched television network in the nation.

From 1993 to 1997, Cisneros served as the Secretary of the U.S. Department of Housing and Urban Development. As a member of President Clinton's Cabinet, Secretary Cisneros was assigned America's housing and community development portfolio. He is credited with initiating a major revitalization of many of the nation's public housing developments and with formulating policies which have contributed to today's record homeownership rate. Prior to joining the Cabinet, he was Chairman of Cisneros Asset Management Company, a fixed-income money management firm operating nationally.

In 1981, Cisneros became the first Hispanic American Mayor of a major U.S. city - San Antonio. During his four terms in office, Cisneros helped rebuild the city's economic base and created jobs through massive infrastructure and downtown improvements, earning for San Antonio a reputation as one of the most progressive cities in the nation in that era.

In 1984, he was interviewed by the Democratic Presidential Nominee as a potential candidate for Vice

President, and in 1986 was selected the Outstanding Mayor in the nation by City and State Magazine.

Mr. Cisneros has served as President of the National League of Cities, Chairman of the National Civic League, Deputy Chair of the Federal Reserve Bank of Dallas, and as a board member of the Rockefeller Foundation. Mr. Cisneros presently serves as Chairman of the San Antonio Hispanic Chamber of Commerce and as a board member of Countrywide Mortgage, The Enterprise Foundation, and the New American Alliance.

He holds a Bachelor of Arts and a Master's degree in Urban and Regional Planning from Texas A&M University. He earned a Master's degree in Public Administration from Harvard, a Doctorate in Public Administration from George Washington University, and has been awarded over 20 honorary doctorates from leading universities across the nation.

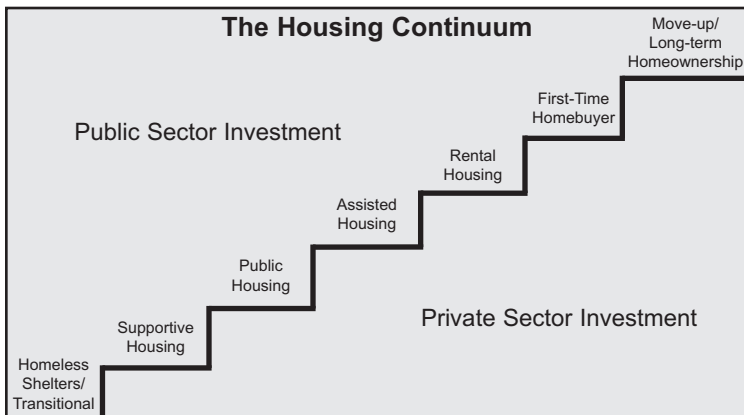
HOMES FOR AMERICANS IN THE 21ST CENTURY: CHALLENGES AND OPPORTUNITIES FOR THE NATION

Thank you for the kind introduction and for the invitation to deliver the John Dunlop Lecture this year. I am honored to be asked to deliver this Lecture, named for one of the premier public servants and public intellectuals of our time. The Dunlop Lecture has been presented in the past by national housing leaders who are also dear friends, including Angelo Mozilo of Countrywide Financial Corporation last year and Kent Colton, former Executive Vice-President of the National Association of Home Builders, in 1999. I am humbled to follow them at this podium.

I also want to express my special appreciation to Nic Retsinas, who is doing a stellar job in analyzing housing trends and presenting them coherently to the nation as Director of the Harvard Joint Center for Housing Studies. It is important that our country is able to rely upon such respected analytical capability in the housing field as the Joint Center has developed. I am also continually pleased when people approach me all across the nation and single out Nic's outstanding work as Assistant Secretary for Housing and Commissioner of the Federal Housing Administration in President Clinton's Administration.

As I reviewed previous Dunlop Lectures, I noted that each had as its focus a particular aspect of the housing challenges before our country. In that spirit, I have decided to focus on what I believe is an essential dimension of the overall housing challenge and that is the imperative to increase the supply of critical housing. In recent years, discussions of increasing the supply of housing have tended to focus on for-sale housing and homeownership. I would like to begin my argument today by presenting the need for housing production at various steps along the Housing Continuum.

The Housing Continuum is a graphic device I first encountered during my tenure at HUD. It is used to describe types of housing, from emergency shelter beds to the highest priced homes in the nation. It is a step-by-step progression from that form of housing which requires the greatest intervention by the public sector to that which is essentially driven by the private investments of individuals. It has proven very useful



over the years in providing a framework for thinking about housing policies.

Housing in the Lives of Americans

Before analyzing the Housing Continuum and supply issues, let me say a few words about why I think it is important, even in a nation celebrating record achievements in homeownership, that we back up several steps and discuss the need, for example, for an enhanced supply of supportive housing for the homeless or for affordable rental housing. One reason is that there are real human needs among our fellow Americans who have the least capacity to purchase housing in the marketplace. Most obvious among those with the greatest need are those who are homeless. As I was preparing to become Secretary of Housing in 1993, a wise housing advocate reminded me that my first obligation as Secretary was to those Americans who are completely “un-housed.”

Another reason for starting with the public steps of the Housing Continuum is that we know that a substantial number of people in our country cannot, even under the best of circumstances, immediately become homeowners. Students working to finish school, elderly Americans who cannot carry the burdens of homeownership any longer, and working families whose low incomes simply do not allow them to participate in the wave of homeownership – all of these are segments

of the population for whom the issues of the supply and affordability of rental units are painfully real.

Still another reason is that each step on the Continuum has a role in building progressively toward the dream of eventual homeownership. That is to say people can “graduate,” for example, from public housing or subsidized rental housing to market rental apartments and then to entry-level homeownership. This in fact should be the goal of our policies – to move families continually upward on the ladder of housing mobility. In an article in the National Mortgage News earlier this year, Nic Retsinas said, “Those who talk about homeownership should work to bolster the supply of rental housing. Without an affordable apartment, a tenant cannot accumulate a down payment, or safeguard his credit rating – both prerequisites to owning a home.”

We should also strive to remember that every type of housing has a role in constituting the housing sector, our nation’s overall effort to shelter our people. We know now that the housing sector’s direct impact on Gross Domestic Product exceeds \$1.5 trillion, which is about fourteen percent of GDP, and that new residential construction alone is associated with more than 3.5 million jobs. We have seen over the last years how frequently Federal Reserve Chairman Alan Greenspan stressed the role that the housing sector played in keeping the recent economic contraction from becoming

a deeper and longer recession. No moment in American economic history has better underscored the significance of the housing sector in our complex national economy.

At a more subjective level, it is also important to note the role that some form of housing plays in the personal lives of Americans. The place where we live – whatever form it takes, for however long it is home – is the place where we find comfort amidst the familiar furnishings and personal items that constitute our space of personal security. It is the place where we seek repose, where we can rest amidst the hectic pace of modern life. It is the place where we keep the things that mean something to us, although they may not have economic value to anyone else, such as family photos. Home is a place where people gather as family and friends to enjoy the significant moments of life, special celebratory days such as a child's baptism or first birthday, and moments of passage such as school graduations, weddings and funerals. It is the place where we seek protection, not just from the elements, but safety from danger, from intruders intent on harm. Home is a place where we can nurse ourselves to health. As much as we all want to be healthy throughout our lives, illnesses as benign as the common cold or as profound as terminal cancer require that we have a private place to care for ourselves and our loved ones. Home is a place where we express our spirituality, where we keep religious articles, where we pray and where we gather our families in moments of spiritual need. Home is the place that

bespeaks the permanence each of us needs. Whether permanence means a tenure of several decades or whether it means a stay of just a few weeks, we all need a place of solidity we can trust.

I have said that this address will be focused on housing supply and production. And you might well expect that from a former HUD Secretary and business person engaged in homebuilding. But let me share with you my conviction that our housing policies must be set in a larger context. The mission of government and indeed a central public value of our society is to steer our national engines of liberty and enterprise so that they create opportunities for self-improvement for all Americans and create choices about the quality of our lives. Therefore among the most important governmental strategies are those that relate to education, wages, incomes, health security, training, early child development, personal improvement, and work-related supports. Housing programs – properly utilized to enhance families’ access to opportunities and choices – are part of that current.

But too many discussions of housing production occur in a vacuum. They are too much about volume and not enough about the ways that housing policies should be a platform for the forward progress of individuals and families. Housing has a huge and unique potential to be exactly that – the starting place for personal progress.

Because housing is a physical good tied to a fixed site, location is key in discussions of production. When we build housing for poor families in settings cut off from jobs and opportunities, neither the housing nor the families can succeed. But we have seen that housing can be an integral redevelopment tool and both neighborhoods and families can win. And as hard as it is to build housing for low-income people in the growth settings of the new economy, when we do it, housing is the ticket to labor market entry and educational attainment. The point is to infuse our supply and production discussions with a clear sense of the role of home – every kind of home – as the launching pad toward a better life, the place to build up from, the place from which to create choices and new opportunities.



With that context, I will discuss how enhancing supply at key points on the Housing Continuum can expand life's choices and opportunities for more Americans.

The First Step: Housing for the Homeless

We begin with housing for those of our fellow citizens who have none – the homeless. These homeless Americans simply cannot afford even the most minimal rents. As a result they live on the streets. The homeless among us sleep on sidewalks or on subway grates to keep warm in the winter. They use public restrooms for personal hygiene and they carry their belongings with them because they have no place for storage of personal items. Because they are exposed to the elements as well as to the dangers of sleeping in public parks or in building entrances, they become ill and are injured.



It is estimated that there are about 800,000 Americans who are homeless on any given night. The number of Americans who are homeless at some point during a year is estimated to be about 3.5 million, and 1.3 million of these are children, making children more than 35% of the homeless population. And we know that a significant number of the homeless are either physically or mentally ill or victims of substance abuse, and that they tend to remain homeless for much longer than those with lesser health problems.

While there are many successful housing models that place homeless people directly into conventional rentals, the magnitude of the current homeless problem necessitates a supply of emergency shelter to provide at least temporary housing for people who have lost their way. For people with disabilities, shelters can be the first step in a connection with the medical, mental health or substance abuse treatment systems that they require.

Part of the challenge in establishing successful emergency shelter is ensuring that it is indeed only temporary, a starting point, and that it is focused on helping people move on to permanent housing. Among the most sophisticated efforts I have seen are the service-rich Saint Vincent De Paul Center in San Diego led by Father Joe Carroll, the Philadelphia city-wide strategy led by Rob Hess, and systems in Columbus, Ohio and Minneapolis for moving homeless people into permanent units. It is impressive to witness the dedication of cadres of managers who know how to bring homeless people in from the streets to safe, clean, and well-managed emergency shelters and who understand how to put in place the services that create a flow to transitional and permanent housing.

The first order of business is to increase the number of shelter beds and service-connected transitional units substantially. The National Alliance to End Homelessness estimates that the nation has about 240,000 shelter beds when we know that the number of homeless people in

need on any given night is 800,000 people. That shortfall requires an enhanced commitment from the Federal level as well as collaboration with local governments in siting



and training. HUD Secretary Mel Martinez has proposed increasing homeless programs in the Federal budget, but the national commitment to add beds must be viewed as a priority for all of us in the housing sector.

When private homebuilders and housing-related business leaders think about our philanthropic responsibilities, our special role in the nation's housing field should motivate us to lend our talents and resources in each of our respective cities to the challenge of providing this first step in the shelter spectrum to those Americans who are completely without shelter. We can be motivated by words of gentle admonition such as these from an unknown author: "On the street I saw a small girl cold and shivering in a thin dress, with little hope of a decent meal. I became angry and said to God: "Why did you do this? Why don't you do something about it? For a while God said nothing. Then God replied: 'I certainly did something about it – I made you'."

Permanent Housing with Support Services

The second step on the Housing Continuum goes beyond emergency shelters and transitional housing to permanent housing and permanent supportive housing for chronically homeless people with disabilities. The National Alliance to End Homelessness asserts that ending homelessness is within our grasp as a nation if we focus on two strategies, which they describe as “closing the front door” and “opening the back door.” Closing the front door means focusing on prevention of homelessness by more effectively addressing illegal use of drugs, low earnings, inadequate health and mental health care, and other problems which push people to homelessness. Opening the back door means enabling people to exit homelessness as quickly as possible by providing permanent supportive housing. This is particularly important for families, so that adult heads of households can begin to think about jobs and training as well as education for children. I saw in New York how permanent housing with support services has proven



effective for persons who have medical needs but who can live independently with adequate supports.

Presently there are about 50,000 units of permanent supportive housing in existence, while the population of chronically homeless people is estimated to be 200,000. This shortfall dictates that an additional 150,000 units of such housing must be put in place. If the nation's goal were to provide those 150,000 units over ten years, as the



Millennial Housing Commission recommended, it would require increments of 15,000 units of supportive housing each year. For the last five years, Congress in its annual appropriations bill set aside 30% of McKinney-Vento Homeless Assistance funding for supportive housing programs. Making this funding permanent would go far toward reaching the 15,000 units per year level.

This form of housing is one of the most important ways by which people can move from homelessness and the cycle of emergency shelter stays to the beginnings of stabilized and independent lives. The larger group of temporarily homeless – the 3.5 million people who are homeless at some point during a year beyond the 200,000 chronically homeless – underscores the need for affordable housing for the lowest income levels. Experts refer to “extremely

low income” as below 30% of the area median income. In fact, many of the temporarily homeless and several million others in substandard or overcrowded housing have incomes below 15% of the area median. Perhaps the most pressing housing supply problem in the nation is the need for rental housing for these very poorest Americans. The nation’s response has been the next two steps on the Housing Continuum – public housing and governmentally–assisted rental housing.

Public Housing

Public housing has been an important part of the national response to housing low-income people since the 1930s. About 2.2 million of the lowest–income families and elderly and disabled persons are served by public housing programs. About 1.2 million live in “hard units” in traditional public housing developments and about 1 million use Section 8 tenant-based certificates, which allow residents to live anywhere they can secure rental units in a metropolitan area.



In many cities public housing developments have for years been among the most deteriorated of housing resources. The classic design approach to public housing in the post-

war years resulted in overly dense, high-rise structures which contributed to the concentration of poverty in central city areas. On a tour of a Baltimore neighborhood accompanied by then-Mayor Kent Schموke, the police refused to allow us to enter a public housing high-rise because they had not been notified in advance and had not been able to clear out the drug dealers. The building was judged to be unsafe, but it was the only housing available to mothers and little children.

Substantial progress toward building less dense developments and encouraging income mixing was made in the 1990s through the HOPE VI program, which resulted in the total renovation of some of the most deteriorated public housing developments. The transformation of lives, of living spaces and entire neighborhoods has followed in dozens of cities. But a criticism of HOPE VI has been that the reduction of densities has also reduced the total supply of hard units available. It is estimated that HOPE VI density reduction, income integration, and rebuilding will result in the loss of up to 100,000 public housing units for the very lowest income households. The importance of continuing to reduce the strangle-hold of concentrated poverty is one reason why public housing renovations must proceed hand-in-hand with the Section 8 voucher program.

Tenant-based Section 8 vouchers have helped offset the losses of hard units. The voucher program has increased

at the rate of about 100,000 vouchers per year. Vouchers are a powerful tool for enabling residents to choose housing close to employment centers and educational offerings. But even with the increased numbers, there are not enough Section 8 vouchers available. In most cities waiting lists are more than two years long. In some cities the waiting lists are so long that housing authorities have closed them, unwilling to add more applicants.

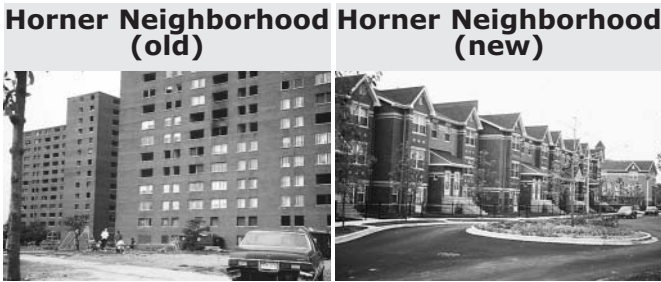
**Norfolk:
Diggs Town**



Despite concerns that some residents are not able to exercise real choice because of discrimination by apartment owners and racial barriers in communities, many more housing vouchers are needed in order to increase the availability of subsidized housing in the nation's major metropolitan areas. Housing analysts believe the Administration's proposal to create a public housing block grant would result in a reduction in the number of housing vouchers.

To address the concerns about the difficulties in using Section 8, it is important to engage non-profit organizations in assisting residents. The stellar record of

the Metropolitan Open Housing Commission in Chicago and the hopeful results of the Moving to Opportunity program in Baltimore underscore the importance of assisting Section 8 families with housing relocation, school choices, job searches, and transportation. Described as “Section 8 on steroids,” they make locational choices real for residents and help translate the benefits of location into better incomes, stronger school performances, and promising career paths.



Public housing authorities should also continue to develop hard units. Following the models of the most entrepreneurial public housing authorities, which are building new or buying existing apartment complexes and converting them into developments that mix market rentals and low-income apartments. Among the most successful innovators is the Atlanta Public Housing Authority, which has transformed dead-end communities into magnets for reinvestment, job creation and neighborhood civic energies. In order for such strategies to succeed, the HOPE VI program, for which no new

funding was requested in the Administration's 2004 budget, must be continued. Increasing the supply of public housing – both physical units and Section 8 vouchers – is an essential part of strategies to improve life's choices for Americans with extremely low incomes.

**Atlanta, Georgia:
Centennial Place**



Subsidized Rental Housing

The next step on the Housing Continuum is governmentally-assisted rental housing. Many housing programs were enacted during the 1960s to subsidize private builders through long-term contracts to provide rental housing for low-income persons. Those programs added appreciably to the supply of assisted housing for the duration of those contracts. But as the contracts reach their expiration dates and as few new units for extremely low income renters are being produced, the supply of low-income rental units will decline. It may indeed represent the most serious lack of supply of any form of housing in the nation. In many metropolitan areas, families who need to rent simply cannot afford market rate apartments. More than 6.4 million renter families live in severely distressed housing or pay more

than half of their monthly income for shelter, this in contrast to well-documented experience that the appropriate level of family income to be paid for shelter is about 30%.

A first step in addressing the lack of affordable rental units is to preserve the current supply of subsidized rental housing. The measures recommended by HUD Secretary Andrew Cuomo and Nic Retsinas and passed by Congress in 1997 and 1999 allowed building owners to renew project-based contracts, enabled HUD to renew Section 8 contracts on developments, and to increase rent returns to owners. But the loss of units continues as strong private rental markets allow owners to “opt out.”

A necessary further step is the enactment of exit tax relief through a preservation tax incentive in order to transfer properties to entities that will continue to operate them as low-income housing. The present system makes it difficult for owners to transfer the properties. Tax relief would help preserve the 1.5 million federally insured apartments whose Section 8 contracts will expire over the next five years.

But beyond preservation of the existing supply, it is important to build new affordable units. The Millennial Housing Commission recommended a 100 percent capital subsidy for construction, rehabilitation, or acquisition of rental units for extremely low-income

households. It recommended a state allocation program, structured in cooperation with localities. Those recommendations are sound and would represent the first federal production program explicitly targeted to extremely low-income households in more than 20 years.

**Home Program
Appropriation Levels**

2002	-	\$1.6 Billion
2003	-	\$1.8 Billion
2004	-	\$2.0 Billion

The most important resource today for spurring production of low-income units is the Low-Income Housing Tax Credit Program. It has involved states and localities in housing production decisions and it has drawn private sector participation to low-income housing. The Millennial Housing Commission recommended making the LIHTC program more flexible and more able to be combined with other housing programs, such as the HOME Program, which can be used to attract private investment to urban rental developments. HOME has broad bi-partisan support and it is one of the few housing programs whose appropriations have increased steadily, from \$1.6 billion in 2002 to \$1.8 billion in 2003 and \$2 billion in the proposed 2004 budget. Still another opportunity to create assisted rental developments is a Section 8 provision written into the 2000 Appropriations legislation, which allows housing authorities to use up to 20% of tenant-based vouchers for new projects. All of these public investments in housing

should be tied to the personal development of low income residents and located in settings that enable residents to avail themselves of jobs, schools, training, child care, and other self-improvement services.

Private Rental Housing

Beyond governmentally-assisted rentals, one of the most important elements of supply in the Housing Continuum is market rental housing. Despite the tremendous expansion in the homeownership rate, there will always be a percentage of households who for very good reasons will not be able to own a home and must rent. In many metropolitan markets rental housing is scarce and expensive. A family with one full-time worker earning the minimum wage cannot afford the local fair market rent for a two-bedroom apartment in any major market in the nation today. Another manifestation of the housing squeeze is the increasing degree of crowding. The Census reports that “after almost a half-century of decline, crowding in American housing is on the rise.” Census data show that 6.1 million households are classified as crowded, up 36% from 1990.

One of the major reasons for the unaffordability is that multifamily construction slowed so precipitously in the 1990s. Juxtaposed against dramatic population increases during the 1990s, the imbalance is a supply and demand driven formula for unaffordability. In the decade of the 1970s, about 5 million multifamily rental units were

constructed; during the 1990s, less than half that figure – 2.2 million units of multifamily apartments – were constructed. The Joint Center estimates that the demand for units affordable to the bottom quintile of renters outstrips the available supply by 2 million units. In many metropolitan areas, the shortfall of affordable rental housing is a crisis. In the Pico-Union neighborhood of Los Angeles I have seen three families crowded into a few rooms; in Chicago I have seen a

Multifamily construction slowed in the 1990s despite a population increase.

1970s - 5 million units
1990s - 2.2 million units

dozen workers sleeping on the floor of a living room; in Houston I have visited neighborhoods where landlords charge stiff rents for the use of garages as living spaces.

In a recommendation to attract private capital to produce mixed-income, multifamily rental housing, the Millennial Housing Commission called for increasing the ability of states to issue tax-exempt debt for multifamily developments with at least 20% of their units available to households with incomes below 80% of the area median income. They further recommended using project-based vouchers or other operating subsidies to make half of those low-income units available to families below 30% of median.

But a serious complication in the nation's effort to expand the supply of rental housing is the reluctance of local governments to provide zoning and other approvals for multifamily units. That reluctance is principally the result of neighborhood and citizen concerns about density, traffic loads, the physical bulk of apartment complexes, and often general bias against renters. When combined with deeper prejudices on matters of race and class, the opposition from neighborhood groups constitutes a serious impediment to construction of the necessary rental supply. Strong local leadership is required to add to the supply of affordable rental apartments in locations where residents can ease their way into the mainstream opportunities of American life.

Entry Level Homeownership

The transition from rental to homeownership represents one of the thresholds in the American progression of housing status. The nation is presently enjoying the highest homeownership rate in its history. More than 68% of American families own their own homes and minority homeownership rates have risen at the fastest rates ever. These levels of homeownership are attributable to the economic expansion of the 1990s, with the attendant higher levels of employment, incomes, wealth, and savings and the lowest mortgage rates in a generation.

Targeted efforts by governmental and private sector institutions to support homeownership contributed to the

record increases. For example, the Federal Housing Administration took specific action in adjusting its guidelines to allow contributed family funds to be used for down payments. It also provided overarching leadership to a broad coalition of more than forty-five national public and private sector organizations, each working to prioritize homeownership in their legislative and policy agendas. The government-sponsored secondary market enterprises – Fannie Mae and Freddie Mac – introduced procedural and technological innovations in order to increase access to billions of dollars of mortgages for moderate and entry-level families.

President Bush has also stressed the importance of homeownership and has established sustained homeownership as a goal of the Department of Housing and Urban Development in his Administration. The Administration's proposal to allocate a flexible new tax credit to stimulate the production of affordable units for homeownership is an important contribution to the continuing national commitment to homeownership at entry levels.

But in metropolitan markets, the principal impediment to continued increases in homeownership at entry levels is the unavailability of supply at affordable prices. The supply gap has led to rapid increases in the cost of entry-level housing. That predictable trajectory became painfully obvious during the later years of the 1990s as

the economic expansion reached its peak. Even in today's slower economy, housing prices continue to rise because of the unavailability of housing stock for entry-level families. Experts suggest that the appropriate ratio of new housing units to new jobs is about one new house for every 1.5 new jobs. In recent years, in California the ratio has been one new house for every three new jobs; in Los Angeles, one new house for every five new jobs; and in Northern California in the late 1990s the ratio reached one new house for every 7.8 new jobs. This is a formula for inevitable price escalation as the demand for each available unit intensifies.

Ratio of New Housing to New Jobs

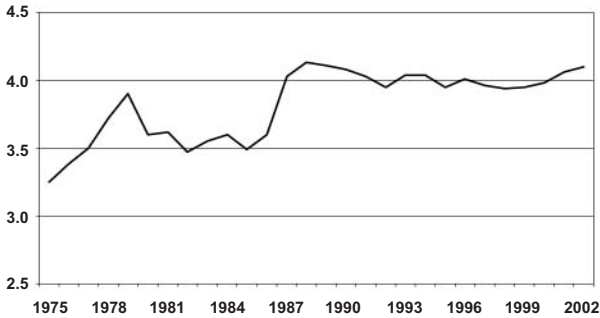
Recommended	1 New Housing Unit for every 1.5 new jobs
California	1 New Housing Unit for every 3.0 new jobs
Los Angeles	1 New Housing Unit for every 5.0 new jobs
Silicon Valley	1 New Housing Unit for every 7.8 new jobs

Today, national measures of affordability are at near record lows. The ratio of median house price to median income – a measure of unaffordability – rose sharply in the 1980's and then stayed at those high levels throughout the decade of the 1990s. The ratio hit record highs in the early years of the new century.

Among the underlying factors in the calculations of affordability, mortgage interest rates have contributed positively. Mortgage interest rates declined to record lows in early 2003 and remain at levels that have added

Affordability: Now at Near Record Lows

Ratio of Median House Price to Median Income



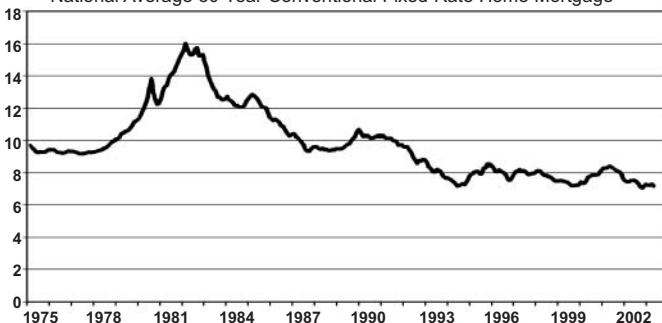
(Ratio of 3.1 in 1975; 4.1 currently)

Source: U.S. Census Bureau, Milken Institute

substantial household purchasing power. A more troubling factor has been the differential between the rate of growth of family incomes over time and the increase of median home prices. In the 25 year period from 1976 to 2001, median household income for all Americans

Mortgage Interest Rates

National Average 30 Year Conventional Fixed Rate Home Mortgage



The decline from 8.05% in June 2002 to 6.5% currently gives the median income household an 18% increase in its purchasing power.

Source: Federal Housing Finance Board (Bloomberg)

rose by an average of 4.9% per year, while median new home prices rose by 6.1% per year. When home prices rise that much faster than incomes, affordability suffers.

But the most damaging factor for affordability is the fact that the supply of units at appropriate prices had not increased rapidly enough. Researchers Michael Collins, David Grove, and Michael Carliner concluded an analysis of supply-side constraints with the following observations. “Many low-income renter households may be in a position to overcome the wealth and income constraints to buying a home, but will still be constrained by lack of adequate housing units at an appropriate sales price in a desirable location... On net, there were about a half-million fewer affordable owner occupied units in 1999 than in 1997.” Viewed in simple supply and demand terms, when the problems of producing homes constrain the supply of new housing units, even as demand continues to increase, unaffordability can be the only result. Thus in the very period, 1997-1999, when the overall homeownership rate for the nation reached its peak, homeownership for households with incomes between 50% and 80% of area median declined.

The range of obstacles to building affordable homes is extensive: the unavailability of approved lots or the high price of land for affordable housing; expensive delays in local entitlements and approvals; the opposition of neighborhood residents echoed by political leaders; the

demands of local governments and neighborhood associations for square footage or features that drive the cost of housing up dramatically; and multi-layered state and special-purpose district approval processes that make the cost of holding land untenable. All of these constitute barriers to increasing the supply of affordable housing in our nation's metropolitan areas.

Strategies to enhance supply in a metropolitan area must have multiple dimensions. The role of local governments – cities and counties – is critical. Local governments who assert that housing is a critical priority must reflect that commitment in their actions with timely approvals and entitlements in order to make construction possible. As land prices rise and per-lot costs exceed levels that allow affordable detached homes, either the density on

Affordability

- Land Cost
 - Public Role
 - Fiscal Issues
 - Financial Institutions
 - Gentrification
 - Homebuyers Assistance
 - Local Government Homeownership Priorities
-

each parcel of property must increase drastically – which local governments often oppose – or prices of the individual units will rise beyond affordable levels. Local governments can help assemble land or assist with infrastructure expenses to help establish land prices that

in turn can translate into affordable homes. Local governments can also be creative in the integration of manufactured units into a community's stock of housing.

We also need homebuilders who will adhere to the discipline of providing affordable stock. Too many builders who started by building affordable housing give in to the temptation to gravitate upscale in the prices of houses they produce. As a result, the number of builders who focus on moderate-to-affordable ranges is reduced, thereby assuring that many families are relegated to rental status.



That is why I was pleased to join Bruce Karatz, Chairman of KB Home, one of the largest production builders in the nation, in creating American CityVista, a venture designed to offer entry-level homes in central city neighborhoods. We work to apply KB's production efficiencies and special mortgage offerings to help families get into starter homes. But as fulfilling as it has been to help families move in to their first homes, it is still painful to talk to other families house-hunting on

weekends, their eyes full of excitement as they tour our models, because I know they will not qualify even for our least expensive market homes.

We need the extensive network of financial institutions, nonprofit organizations, and governments providing assistance to homebuyers through down payment and mortgage assistance and housing counseling designed to help people qualify for homes. But we also need help across the board to increase the supply of affordable housing. We need help to lower the factor costs – such as urban land – in order to be able to lower the price of the entry-level home. We need local incentives to encourage small and mid-size builders to hang tough at affordable ranges. And we need political leadership committed to honest efforts to produce affordable homes – the traditional American starting point for family wealth and community stability.

Long-Term Homeownership

The final step of the Housing Continuum includes the broad spectrum of owner-occupied homes, from move-up homes to multi-million dollar mansions. The nation's commitment to the breadth of homeownership continues to be strong. The Home Mortgage Interest Deduction is an oft-criticized aspect of the Federal tax structure, but considering the importance of the housing sector to the economy, it is a major national commitment which cannot be altered without risking serious dislocations in

the structure of the overall economy. Though there are legitimate concerns about the disproportionate share of tax expenditures that go to higher income households through the home mortgage interest deduction, the housing sector has served the nation so well that we must tread cautiously concerning measures which would fundamentally change the structure of an industry that has created the most broadly accessible and best quality housing stock in the world and which, through supporting the attainment of housing equity, has contributed to the most fluid progression of families to middle class status in the world.

Two Dimensions of the Nation's Housing Supply Challenge

I have tried to explain for each step of the Housing Continuum the need to increase the supply of housing and the need to employ it to improve life's choices for all Americans. A combination of Federal strategies, private sector initiatives, and local governmental support is needed to increase supply at every stage of the Housing Continuum. The nation's population will continue to increase and that alone will add to the demand for housing. Recent history teaches us what happens when population grows and housing does not keep pace. During the 1990's, the nation's population grew by 32.7 million people, 10 million more than growth in the 1980's. But Robert Lang, a consultant to Fannie Mae, reports that housing production in the 1990's slipped to

levels well below those of the 1980's and even below those of the 1970's. In the 1970's the nation added 17 million housing units for a population increase of 23.2 million people. In the 1990's, we added only 13.3 million units despite a population gain of 32.7 million. The result in the 1990's for too many Americans was unavailable units, unacceptable conditions, unaffordable prices and un-housed families.

National Housing Production

	New Units	Population Increase
1970's:	17 million	23.2 million
1990's:	13.3 million	32.7 million

In the following paragraphs I would like to expand on two critical dimensions of our supply challenge: the specific supply requirements created by new American populations and the opportunities to breathe new life into cities through housing production strategies.

The New Demographics of Housing

A major dimension of the supply challenge involves the demographic changes which confront the nation. As mentioned earlier, the Census of 2000 showed a national population of 281 million people, which the Census Bureau's mid-range projections indicate will grow to about 403 million by 2050, an increase of 122 million people or 43% more than our current population. The White/Non-Latino population will grow from 194 million

Population Distribution (In Millions)

Year	Total	White Non-Latino	Latino	African American	American Indian	Asian American
1995	262,820	193,566	26,936	31,598	1,931	8,788
2000	281,422	194,553	35,306	34,658	2,476	10,243
2020 E	324,926	207,145	55,156	44,735	3,207	19,589
2050 E	403,686	212,990	98,228	59,239	4,405	37,589

Source: U.S. 2000 Census & U.S. Census Bureau Population Division, Population Projections of the U.S., Total Population by Race, Hispanic Origin, & Nativity

in 2000 to 212 million in 2050, an increase of about 18 million. However during that same time, the Latino population will grow by 63 million people, African-Americans will grow by 25 million, and Asian Americans by 27 million.

Underlying reasons for the growth of minority populations include that fact that minorities are younger than the national average. The percentage of the

Minority Households are Larger

Percentage of Households with more than 5 persons

Whites	Hispanics
10%	25%

Source: 1998 Current Population Survey

White/Non-Latino population under twenty years of age is about 25%. By contrast, the percentage of the Latino population under twenty years of age is almost 40%. Minority households also tend to be larger. Only about

10% of the White/Non-Latino population resides in households with more than five persons, but almost 25% of the Latino population resides in households with more than five persons.

Most of the population growth will be generated by natural increases, but immigration will play a factor as well. Almost 800,000 persons are admitted legally to the United States in an average year. Of those about 31% come from

**Gateway States:
Immigrant Destinations in the U.S.**

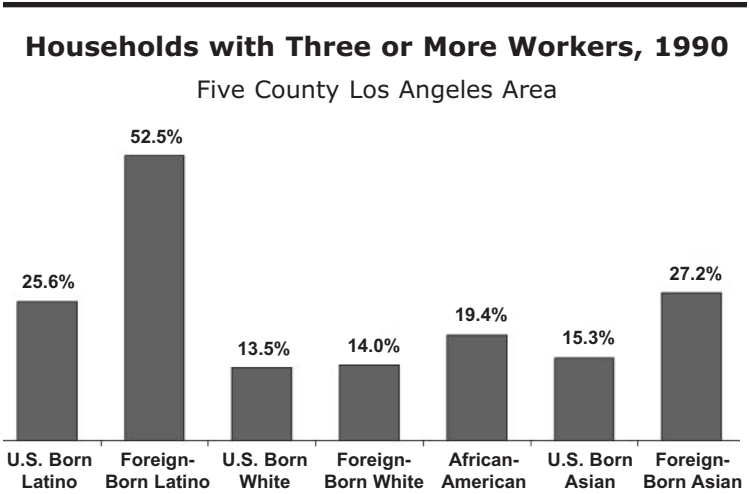
<u>State</u>	<u>Number</u>	<u>Percent</u>
California	203,305	25.5%
New York	123,716	15.5%
Florida	82,318	10.3%
Texas	57,897	7.3%
New Jersey	41,184	5.2%
Illinois	38,128	4.8%
Virginia	19,277	2.4%
Maryland	19,090	2.4%
Washington	18,656	2.3%
Massachusetts	17,317	2.2%
Michigan	14,727	1.8%
Pennsylvania	14,553	1.8%
Georgia	12,623	1.6%
Connecticut	9,528	1.2%
Arizona	8,632	1.1%
Minnesota	8,233	1.0%
Ohio	8,189	1.0%
Oregon	7,699	1.0%
Colorado	7,506	0.9%
Hawaii	6,867	0.9%

**Total Top
20 States** 719,455 90.2%

Source: U.S. Department of Justice, Immigration and Naturalization Service, Annual report, January 1999

Spanish-speaking countries and 24% come from Asian nations. Immigrants tend to concentrate in a handful of states. Almost 70% reside in California, New York, Florida, Texas, New Jersey, and Illinois. The gateway cities of New York, Los Angeles, Miami, Chicago, Washington, Orange County, and Houston house almost 40% of the annual national immigration total.

Minority and immigrant homebuyers are already a substantial part of the pressure for increases in the rental housing supply. But because they are such hard workers, they will also be a principal source of momentum for homeownership. I have seen how even though many minorities individually work for low wages, they live in households which function economically as middle class units because of multiple workers in each household.



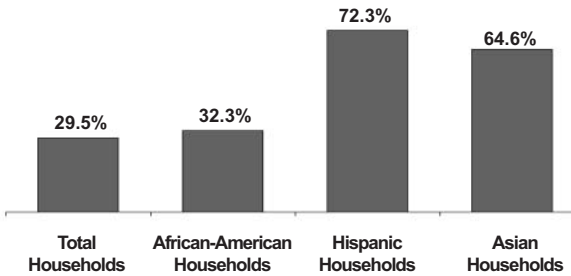
Source: Pepperdine University Institute for Public Policy "The Emerging Latino Middle Class" 1997

One analysis for the five-county Los Angeles area shows that fully 52% of foreign-born Latino households have three or more workers. The group with the second-highest participation rate of multiple workers per household is foreign-born Asians, with 27%. Many of these households set homeownership a priority, even while individuals within the household are still working for sub-standard wages.

As an aside, it seems unfair to me that despite how hard workers in home construction work, how skilled they are, and how essential they are to the industry, most cannot themselves own even the least expensive homes they build. They can put the money together, but they are regarded to be transitory workers or irregular in some other respect. The building industry, lenders, Fannie and Freddie – all of us concerned about maintaining a quality workforce for residential construction – can do something about this glaring unfairness and serve the industry's needs for a stable workforce in the process.

An important economic dynamic, which results from the energetic work habits of minority populations and immigrants, is the rapid increase in the minority middle class. The size of the Hispanic middle class grew by 72% in the 1990s and the Asian middle class grew by 64% during the same period. The implications for homeownership are dramatic. Projections for homeownership indicate that by 2010 about 5 million new minority

Growth of the Middle Class: 1989-1999



Middle Class Defined:

1989: \$23,663 - \$36,201

1999: \$33,001 - \$52,174

Source: U.S. Census Bureau

homeowner households will be formed, about 50% of the projected national increase of 10 million homeowner households. The homeownership gap between the White population, whose homeownership rate rose to 74% in the last several years, and minority populations, whose

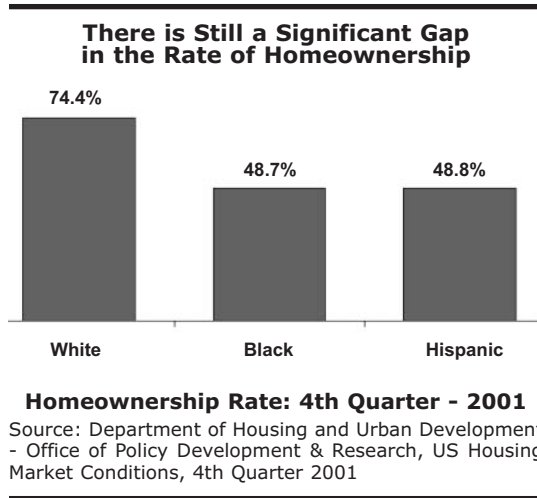
**Projected Owner Occupied Household Growth in Millions
2000 - 2010**

Total	African American	Hispanic Other	Asian/ Minority	Total
10.9m	1.8m	2.2m	1.0m	5.0m

Source: 1998 Current Population Survey

homeownership rate has risen to 48%, underscores the huge potential for minority homeownership, its importance to the nation's economic well-being, and the opportunity to make stable, contributing citizens of our newest Americans.

However, if our housing strategies are simply to make down payments more attainable or to provide credit counseling, without appreciably increasing the supply of housing, then the pressure on home prices will continue to intensify. We need local actions to add to the supply of affordable housing. The growing number of minority



public officials must lead the way in making the hard choices that make housing affordable for minority populations. They must understand that every time they succumb to pressures to add development fees, to add to labor costs, to favor commercial projects over residences or to declare suitable land off-limits for housing because of environmental preferences, some minority families with dreams of homeownership are denied those aspirations by the resulting higher prices. On the other hand, minority officials intent on revitalizing declining areas and on replacing old land uses with new ones, have

a powerful tool for recycling urban neighborhoods in the building of new housing.

New Housing as an Investment in Urban Progress

An enduring strategy for revitalizing central city communities is to increase the supply of quality housing at prices that middle income and lower income families can afford. Despite the beliefs of some local officials that they are better served by attracting retail and business activity, in fact it is difficult to sustain permanent urban business vitality without a growing base of workers and consumers nearby. Every new rooftop represents disposable income from a household. If the aggregation of housing is strong enough, businesses will follow. My motivation for helping

Central Commons
Cleveland, Ohio



create American CityVista came from neighborhoods I saw in Detroit and Cleveland, which have experienced continuing deterioration for decades but are now assembling land for the construction of mixed-income communities. The result of those efforts has been to repopulate older areas, to reinstate the central city tax base, to bring new leadership to neighborhood institutions such as schools and

churches, and to begin the quantifiable accumulation of household incomes that justifies decisions by major commercial businesses to invest in older neighborhoods.

Cities that encourage a mix of incomes and housing types assure not only that a diverse range of city residents will secure housing, but they put in place the housing options that allow residents to move up the ladder of opportunity. Cities that aggressively build new housing add a critical dimension to their traditional roles as ladders for upward mobility in American society.



There are new populations who want to live in the cities. There are existing populations familiar with central neighborhoods. Other urban residents want to avoid the congestion and the long commutes associated with living in the suburbs. They want to enjoy a metropolitan lifestyle or be near employment centers. Some want to be close to family, church, and community roots; others simply enjoy the urban lifestyle with its civic involvements. Among the people who are the potential residents in such revitalized

neighborhoods are empty nesters, immigrant families, minority families, the adult children of families who already live in central neighborhoods, and single young professionals. In most cities, there are a substantial and growing number of people who would consider living in central areas if new housing were available.

More American Homeowners are Seeking Central Locations

- To Avoid Congestion, Traffic, and Long Commutes
- To Enjoy a Metropolitan Lifestyle with Downtown Amenities
- To Be Near Employment Centers
- To Be Near Familiar Neighborhoods and Close to Family and Community Roots
- To Participate in Civic Involvements and Greater Citizen Interactions
- To Have a Distinctive "Village Within the City" Experience with New Home Comforts and Technologies

Targeted Consumers Want Location and Convenience

- Young professionals
 - Empty nesters and retirees
 - First-time homeowners with young families
 - Immigrants
 - Minority homeowners
 - Working families
 - Multigenerational households
-

The realities of making such housing available in central neighborhoods are daunting. Land costs can be substantially higher than suburban alternatives because

previous uses increase the mitigation costs or because land configurations may be ill-suited to traditional site planning. Sites may be smaller and more difficult to develop. The combination of land preparation cost and complex entitlement processes dictate more expensive housing or higher densities. But building only high-end housing undercuts the goal of affordability and promotes gentrification. And building higher densities frequently generates opposition from city governments and communities. Good site designs and good architecture for affordable housing – even if it is more dense – can sometimes convert opponents.

**Strategic Partnerships:
The Key to Urban Projects**

- School districts
 - Neighborhood leaders
 - Local business
 - Police
 - Community Colleges
 - Corporate partners
 - Financial institutions
-

City governments can be helpful in identifying sites, assembling land, assuring the adequacy of utilities, extending public transportation, enacting housing assistance programs aimed at affordability, expediting entitlement processes, and working closely with neighborhood leaders to meet community objectives. To effectively build new mixed-income communities,

strategic partnerships must involve school districts, local police, community colleges, corporate partners, financial institutions, and nonprofit providers of community services such as youth recreation, athletic leagues, and after school programs.

States can be helpful also. The California Public Employee's Retirement System has allocated several hundred millions of dollars to spur the building of workforce housing in urbanized areas. State Treasurer Phil Angelides has articulated "double bottom line" principles: it is possible to generate investment returns for the State's retirees while at the same time investing in affordable housing in communities with needs. Our company is a partner in a new venture, Pacific CityHome, which recently closed a 150-home project of workforce housing as part of that CALPERS strategy.

Michael Carliner of the National Association of Home Builders in a report on homebuilding in central cities describes how the location of new housing "has become a subject of increased interest as political and media attention has focused on the issue of 'sprawl' and of alternatives described using terms as 'smart growth,' 'livability,' and 'sensible growth'." He recounts the joint effort announced in 1999 by the National Association of Home Builders, the U.S. Conference of Mayors, the White House, and HUD to build a million new units in cities over ten years, including steps to remove regulatory barriers

Downtown Pomona, California



Present Downtown Site

Proposed Residential Plan

and to provide grants and technical support from HUD and local builders' associations. Carliner concluded that such increases in new housing in cities are attainable in periods of expansion such as the 1990s, "but more normal economic circumstances will require bold efforts by both government and the home building industry."

Conclusion

I have described two dimensions of the housing supply challenge – the housing needs of the nation's new populations and housing production as a strategy of urban revitalization. They have in common an imperative to increase the supply of new housing.

Additional production is needed across the Housing Continuum, but from this analysis we have seen that it is needed acutely by particular groups: supportive housing for the homeless, rental units for extremely low-income households, affordable private rentals for working families, entry level and workforce houses for aspiring homeowners. These needs are most severe in the

immigrant gateway cities, in high growth states, in inner cities and in areas with growing concentrations of minority workers.



But building the needed supply will get harder. Our metropolitan areas are pushing farther outward and their edges overlap into sensitive environmental zones and farmland. Resistance to densities and fear of crowding raise obstacles to building in inner neighborhoods, particularly to building more affordable types of housing. The framework of governmental regulations and restrictions makes building housing ever more expensive.

We know our nation needs a steadily increasing supply of housing. Our population will continue to grow and our free enterprise system depends upon the economic growth for which the housing sector is a solid foundation. But the most compelling reason that we must act on the need for responsible increases in the housing supply is because we know the aspirational force that

home – every form of home – represents in the lives and outlooks, plans and ambitions of our people.

I was touched by an excerpt from an op-ed article in the Boston Globe in July 2000 in which the writer marveled at the steps in the construction of a new home nearby. Those daily observations evolved into deeper reflections on the importance of building homes for all Americans: “So across cultures and history, and across class lines even, lived-in spaces, grand or humble, stand in the same place of importance. Every person knows the value of rooms that feel right, of safe corners, and of floors solidly underfoot... The homeless and the well-housed are alike exactly in being made for the spiritual consolation of material security. We know this of our own experience: all that we mean by “home” is not a luxury, but a basic necessity, and therefore a human right. To be without corners of one’s own is to be exiled from the self, a condemnation deserved by no man or woman and certainly by no child... knowing how essential our cherished places are to everything about us, surely we can find a way, in this rich country, to make room for everyone.”

Our builders, our government officials, our local leaders, all of us – we must each do our part to build the homes that will create the life we want for all Americans. Our earnest expectations for our children, our fondest wishes for our fellow citizens, our sacred hopes for the American generations to come – all require first a decent place to live.