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What 'Historic' Means to Public Housing

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According to the U.S. Department of Housing and Urban Development (HUD) website, "there are approximately 1.2 million households living in public housing units, managed by some 3,300 Housing Authorities" across the United States. The actual facilities come in all sizes and types, from scattered single-family houses, garden apartments to high-rise apartments. The story of the development of public housing is an interesting one which resonates with our current housing crisis.

The heritage of public housing reflects a holistic approach that sought to provide wholesome living conditions driven in part by the failure of the marketplace to provide viable housing products. The roots of the program date to decades before World War II but were substantially accelerated under President Lyndon B. Johnson's Great Society. Public housing sites can now be recognized as historic due to their age and significance. Projects frequently engaged leading architects of the time. As such, they are eligible for various local, state and federal financial incentives. This article addresses the history of public housing and how the redevelopment of these properties interacts with historic preservation regulations and provides opportunities for historic incentives.

History of Public Housing

The history of public housing can be roughly framed into three eras. The first was during President Franklin D. Roosevelt's New Deal era in the 1930s. The second era came under President Harry Truman with the Housing Act of 1949. The final era was during the Johnson administration, which elevated housing to a cabinet-level position and greatly expanded public funding.

The first federal initiative occurred in the New Deal era under the Federal Public Works Administration (PWA). The overall goal of the PWA was to build large-scale public structures such as dams, hospitals, bridges and housing in response to the economic downturn brought upon by the Great Depression. The devastating impact of the Great Depression undercut perceptions of poverty as personal failings and the New Deal focused attention on the inequalities of the housing market, rampant slums and proliferating shantytowns. In particular, Title II, Section 202 legislation of the National Industrial Recovery Act of 1933 formed the PWA and allotted $3.3 billion for their projects, among them included the construction, reconstruction, alteration or repair under public regulation or control of low-cost housing and slum clearance projects.

The next era came about with the Housing Act of 1949 under President Truman. Here, in the face of aging and outdated housing stock, public housing construction was tied to urban redevelopment. Several additional housing acts were passed after 1949, but no major legislation changes occurred until the Housing and Urban Development Act of 1965 under President Johnson's Great Society initiative.

The Housing and Urban Development Act of 1965 created (HUD). Perhaps of greater importance, it opened the funding pipeline. The 1965 act authorized 60,000 units of public housing over four years. This was followed by the Housing and Urban Development Act of 1968, which set a goal of 26 million new dwellings, including 6 million new units for low- and moderate-income households over 10 years. In practical terms, this resulted in a surge of public housing construction across the country that by 1970 had reached over 1 million units.

What government planning did not account for was the impact public housing would have on the history of the United States. Due to the importance of public housing development throughout the mid-20th century, many of these structures are now considered historic resources. As such, they qualify for financial incentives, but are also subject to historic preservation regulatory review.

Historic Preservation Regulation (Section 106)

In 1966, the federal government adopted the National Historic Preservation Act (NHPA), which included some regulatory protections on historic buildings and structures. One of these regulatory protections is a Section 106 review. Section 106 of the NHPA requires individual agencies within the federal government, in collaboration with the respective state historic preservation offices (SHPOs), to determine the impact of federally funded projects, referred to in this process as undertakings, on historic properties.

Historic properties are generally assessed using guidance from the National Parks Service's National Register Bulletin 15: How to Apply the National Register Criteria for Evaluation, though some states have developed individual guidelines for the Section 106 process. In this, undertakings include, but are not limited to, alterations or demolition of existing buildings, as well as adjacent new construction. The Section 106 process first identifies the area of potential impact and then assesses whether or not there will be an adverse effect or no adverse effect on any potentially historic resources.

Image: Courtesy of Heritage Consulting Group
The High View Apartments in Killeen, Texas, may use historic tax credits for rehabilitation.

As it particularly relates to public housing authorities (PHAs), the Section 106 process is most commonly triggered by the use of funds through the HUD under 24 CFR Part 50.4(a) or Part 58.5(a), which both require HUD or its responsible entities to comply with the NHPA and Section 106 review process.

Examples from the Philadelphia Housing Authority (PHA) provide excellent insight into local housing authorities' compliance with the Section 106 process. According to TillmanNichole Tillman, executive vice president of communications for the PHA, the PHA controls more than 11,500 units spread over 56 distinct developments and scattered sites throughout the city.

"Every redevelopment will be evaluated under Section 106," Tillman said.

In Philadelphia, the majority of PHA buildings in line to be redeveloped are likely more than 50 years old, indicating they may be considered historic and redevelopment may result in adverse effects. Any HUD-funded project to replace windows, update interior finishes or install new entrances therefore requires SHPO review to determine any potential adverse effects to historic properties.

Tillman explained the potential challenges with the Section 106 review process.

"Given the age of some of our developments, many do not meet current design standards," Tillman said. "This may relate to bedroom size, layout, features and the overall site plan. Today's design standards and PHA's approach are much different than what was planned in the 1950s. The biggest challenge then becomes balancing historic character and cost. In some cases, rehabilitation of our older buildings becomes cost-prohibitive. Typically, every mechanical system must be replaced and the structural components often present significant challenges."

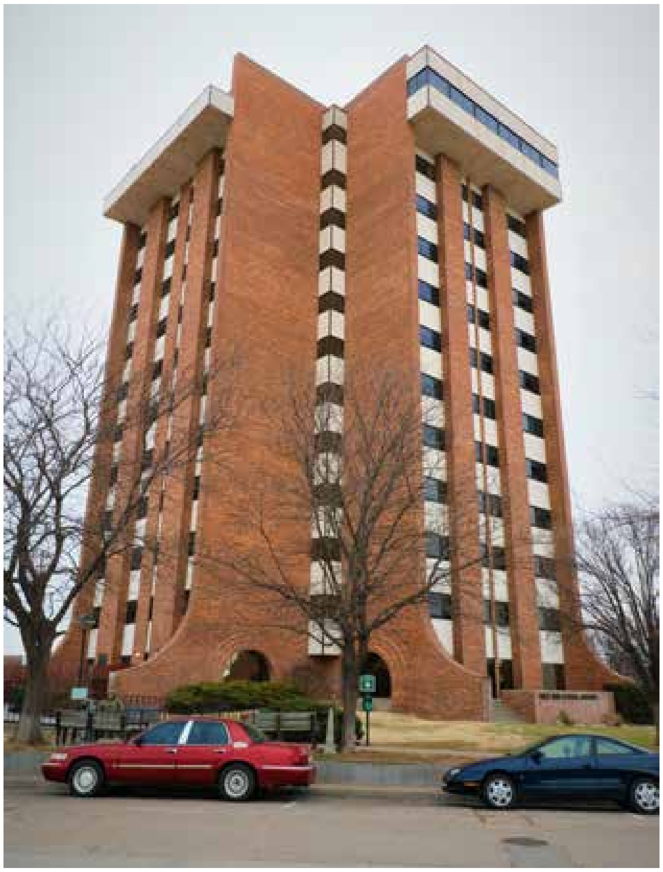

Image: Courtesy of Heritage Consulting Group
The High Rise Apartments in Great Bend, Kansas, seek historic tax credits for rehabilitation.

Despite the challenges posed by Section 106, the review facilitates the protection of our nation's historic resources. Tillman and the PHA understand the importance of historic building and have learned through experience with historic reviews the most effect ways to mitigate the challenges posed by them.

"Planning and community engagement [are the most important factors]," Tillman said. "PHA has learned from experience that you need to integrate time into your schedule and invest in the proper planning for older developments. This typically means hiring consultants who are well versed in the historic properties requirements under the federal regulations and the Section 106 process, and planners who are creative to seek solutions in order to properly engage with the community and interested parties."

Tillman expanded upon the importance of a proactive and practiced historic consultant.

"Older properties that may seem to present no challenges often have surprises that are difficult to anticipate and can cause significant delays and changes to plans," he said.

Proper planning for potential setbacks, therefore, is the best way to ensure a successful Section 106 review, which opens the door to alternative funding options in the form of historic tax credits (HTCs) and HUD Rental Assistance Demonstration (RAD) funds, which are available to historic resources.

Incentives for Historic Public Housing Properties

While the Section 106 process can be a "stick," HUD's RAD program offers PHAs a "carrot." The RAD program was created in 2012. The program was enacted in an attempt to resolve deferred maintenance amounting to $49 billion on 1.1 million public housing units nationwide.

What is particularly important about RAD is that it may be combined with the 20% federal HTC. To encourage the creation of additional affordable housing, the low-income housing tax credit (LIHTC) was created and structured so it could capitalize on the HTC. However, by definition, public housing properties were excluded from private investment as found from the LIHTC and HTC. RAD extended the syndication framework to public housing resources.

The RAD program seeks to preserve affordable housing by providing PHAs with the ability to leverage private capital to finance improvements and invest in the existing housing stock. The RAD conversion allows for other funding sources, such as LIHTCS and HTCs. In this way, RAD allows PHAs to preserve and make improvements to affordable housing units that could otherwise be lost. Many public housing developments built between the 1930s and mid-1970s have used HTCs and/or LIHTCS through the RAD program. For example, the Philadelphia Housing Authority, according to Tillman, "utilizes the RAD program whenever it is possible. The project-based voucher platform provides tremendous flexibility to our development efforts."

As public housing was historically the federal government's approach to solving housing dilemmas, other forms of housing are inching into the marketplace, given the economic disparity in the country. One of those forms is workforce housing.

The Bigger Picture

The ever-increasing economic reality is that the vast number of working Americans no longer earn enough money to pay rent. Public housing is an important solution, but cannot be the only solution. We need a full spectrum of housing types, responsive to the needs of our population. Beyond the distinct categories of public and affordable housing, developers and capital providers are increasingly focused on another type of housing that has gained popularity in recent years–workforce housing.

While there is no official definition or IRS guidance on what constitutes "workforce housing" exactly, it is generally regarded as multifamily housing targeting households that earn between 61% and 120% of area median income (AMI). Unlike public or affordable housing, which rely on rental assistance and/or LIHTCs, workforce housing is fundamentally a market-rate product. Workforce housing aims to serve households that do not income qualify for public or affordable housing, but that may struggle with affording market-rate housing. In some high-rent markets, such as New York or San Francisco, "workforce housing" can mean housing that serves households earning as much as 180% of AMI. In this sense, workforce housing is harder to define in part because it is location-specific, occupying a gray area depending on local incomes, local rental rates and local availability of high-quality rental housing.

Workforce housing also occupies a gray area in the capital markets, but it is nonetheless a natural candidate for HTC finance. There are few explicit public subsidies for workforce housing. State housing finance agency incentives are varied and there are a wide range of private equity and opportunity zones funds that are focused on investing in workforce housing. Regardless, federal HTCs deployed in multifamily historic rehabilitations or adaptive reuse conversions to workforce housing are a natural fit.

It can be difficult for even the best historic rehabs to compete with new-construction apartments on rental rate. As a result, historic multifamily projects can result in "naturally occurring" workforce housing–that is, housing units for which the market rate is in line with workforce housing rental rates. HTCs play a mission-critical role in equalizing return on investment for capital providers on historic multifamily rehabs relative to new-construction projects. The HTC helps make up the financing gap for developers of historic multifamily projects that earn workforce housing rents instead of new construction rents.

Conclusion

The historic significance of public housing in the United States cannot be understated. The need for public housing in the early- and mid-20th century appropriately echoes the ongoing economic disparity and housing affordability crisis. The historical impact of public housing, therefore, will only continue to grow in importance. Regulatory processes and financial incentives have become an important factor in both helping preserve these buildings as well as funding redevelopment of them. Sometimes, PHAs try to navigate this on their own, which can lead to time delays, cost concerns and general frustration. As noted by George Tillman, a way to ease the process is to engage a qualified project team. Bottom line, there are a lot of opportunities for the rehabilitation of older public housing. The active redevelopment of public housing is but one way in which historic preservation can aid in bringing an end to the current economic crisis. ❖

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