

Public Housing—Disse and Stressed in a Brave New World

by Thomas E. Nutt-Powell

Before January 1995 when referring to public housing authorities (PHAs), the term “distressed” had a specific meaning in the context of Federal policy. However, with HUD’s announced reinvention of PHAs and congressional budget cuts, this meaning has changed.

Before 1995 “distressed” was a qualifying term for HUD’s Urban Revitalization Demonstration (URD) program. The condition was based on occupancy rates, physical condition, socioeconomic level of residents, and location of the PHA. A “troubled” PHA was identified by its HUD report card, which gave letter and numeric grades (PHMAP scores) for several HUD-defined measures of performance.

Life After Reinvention

HUD’s reinvention of public housing has changed these qualifications. The most critical component of reinvention is a shift from PHA- to tenant-based subsidies. Distress will be measured by each development’s financial strength, which is its ability to attract and retain voucher holders and/or market-rate tenants. Distressed PHAs will have poor performance portfolios.

In the transition from “life as we know it” to the “brave new world,” PHAs will need to assess the strengths of each and every property. This assessment will include capital as well as operating needs, subsidies, market-rate rental income, and special purpose income or grants. The old “viability” measures will be replaced by true performance measures, such as income and expense statements, capital and operating reserves, and

objective-enhancing activities. Developments will be rated as “Strong Performers,” “Market Vulnerable,” or “Not Salvageable.”

Some apparently weak properties will be salvaged using a “Work-Out” approach—developing a market-based plan that justifies expenditures of time, talent, and funds. Other apparently strong properties may require more resources than expected to address deficiencies. Some properties will be determined to be expendable and will be removed from the portfolio.

Public Housing in a Post-Centralist Economy

HUD’s reinvention, rooted in tenant-based subsidies, abandons a centralist housing economy and forces PHAs to adopt a market-driven, development-based *asset management* approach. The resulting dramatic changes will affect both PHA management and residents, who are used to a more institutional style. Yet the empowerment that HUD has sought through partnerships of PHA management and residents can be most effectively accomplished using the free-market alternative. Large, centralized bureaucracies like PHAs tend to breed adversarial relationships.

Asset Management as HUD’s New Direction

HUD’s best option is to bring public housing into the modern housing management world. There is a higher probability of success in organizations that have smaller areas to control. HUD has been prompting PHAs

to move in this direction with the Comp Grant program, which requires site-by-site physical needs analysis, portfolio-wide planning for allocation of scarce resources, and site-based budgets. HUD's reinvention now obliges all PHAs (whether "troubled" or "functional") to adopt market-driven strategies when competing with market alternatives, such as other assisted housing, private-market rentals, or homeownership.

For the public housing portfolio, asset management is the most logical approach for HUD to consider. Successful asset management is characterized by:

- Measuring housing developments for effective management and maintenance.
- Basing decisions regarding unit, building, and site systems on ease of maintenance.
- Using site-based budgets, decision-making, and accountability.

- Employing central staffs to set policy and procedure, monitor performance, and assist with market, finance, management, and maintenance issues.
- Designing information and financial systems for quick response and cost effectiveness.
- Implementing market-sensitive leasing and management.

In the asset management approach, a PHA is more properly viewed as a holding company. The mission of the director and executive board is to achieve objectives by artful deployment of resources. Key functions—accounting, site management, materials, subsidy management, maintenance, and capital improvements—can be performed by a contractor or an inhouse profit center. Whichever method is chosen, the standards of performance should meet the basic mandate of public housing—making it a good, affordable, and happy place in which to live.

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