

The Role of Nonprofit Housing in Canada and the United States: Some Comparisons

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Abstract

When the development of large-scale public housing projects was discontinued in the 1970s in both Canada and the United States, the policy response was very different. This article reviews the nature of the dissimilar low-income housing policy paths, documenting the role of federal housing policy in the evolution of a significant nonprofit “third sector” in Canada’s housing system; the decision of the U.S. federal government to rely on the private sector for subsidized rental supply; and, with very little help from the federal government, the ‘bottom-up’ attempt to develop a nonprofit housing sector in communities throughout the United States. In Canada, a permanent stock of good-quality, nonprofit social housing was created along with a growing and increasingly competent community-based housing development sector.

The Canadian experience demonstrates that it takes time to build the capacity of the nonprofit sector. The U.S. experience demonstrates that there is a great deal of community-based talent ready and willing to provide nonprofit housing if reliable and adequate funding is available. Canada has made outstanding progress relative to the United States in the area of affordable housing supply, creating yet another small but significant difference in the quality of life for lower income households. The general Canadian approach to consistent national support of nonprofit and cooperative housing can be applied in the United States. Canada’s relative success is not based on unique structural or systemic differences—that is, it is a matter of political choice and political will. The United States should look to Canada’s 20-year experience to determine whether some of the mechanisms used to support Canada’s nonprofit sector might be transferable to the United States.

Introduction

The past decade has witnessed a remarkable emergence of community-based housing initiatives and organizations in cities, suburbs, and rural areas across North America. In the United States, the nonprofit sector is still a marginal part of the housing industry, but it is growing and has found increasing support from foundations, private industry, and government at all levels. In contrast, Canada has a large nonprofit sector (commonly

referred to as “social housing”) that has been nurtured for two decades by the federal government and some provincial and municipal governments.¹

Depending in large part on the type of postwar welfare state, subsidized housing in market economies can take many forms. Both Canada and the United States are liberal welfare states, which are arrangements among the state, the market, and the family qualitatively different from the arrangements found in corporatist and social democratic welfare states (Esping-Anderson 1990). Liberal welfare states emphasize individualism, individual responsibility, and a reliance on the private market. Means-tested assistance, modest universal transfers, and modest social insurance plans predominate. Government interference with the private sector’s provision of goods and services is minimized, the granting of social and economic rights is minimized, and a dualism between market and state allocation is maintained (Esping-Anderson 1990; Myles 1988; O’Connor 1989).

While most of the other characteristics of the housing systems are similar, subsidized housing policy and programs in Canada and the United States have developed along very different lines since the early 1970s. Most housing in both countries is constructed by private builders and financed by private lenders. Almost two-thirds of the households in both countries own their own homes, and these are mostly detached, single-family houses. Early nonmarket, subsidized rental housing in both countries often was in the form of large-scale public housing projects on urban renewal sites. During the 1980s, housing prices skyrocketed in the largest urban areas and for middle-class Canadians and Americans, the dream of homeownership became increasingly elusive (Apgar et al. 1992; Callis 1990; Dreier and Atlas 1992a, 1992b; Fronczek and Savage 1991; Hulchanski 1990; Marcuse 1990). Housing conditions are considerably better for Canada’s poor and working-class residents than for their counterparts in the United States. Canada has no slums to match the physical and social deterioration in the inner cities in the United States. Nor are Canada’s cities overwhelmed with citizens sleeping in shelters, streets, and subways. There are many homeless people

¹ Social housing is a widely used but imprecise term encompassing all nonmarket forms of housing developed under various subsidy programs. In this article, the term includes nonprofit housing, cooperative housing, rent supplements, rural and native housing, and urban native housing. It excludes units provided under the now-discontinued public housing program.

in Canada, and many lower income households have extreme difficulty affording the housing they need (Wolfe and Jay 1990), but the relative magnitude of the problem is dramatically different from that in the United States.

The quality of life for lower income households is better in Canada because of the differences in several welfare state policies and programs. Housing subsidies alone do not account for the comparatively better living conditions of Canada's poor and working-class families. A universal health insurance program, a better unemployment insurance program, and a variety of superior family support programs contribute to the better housing and urban quality of life that Canadians have relative to Americans (Banting 1987; Dreier 1991; Dreier and Bernard 1992; Guest 1988; Hanratty 1992; Hanratty and Blank 1992; O'Connor 1989; Wolfe 1992).

Canada has made more progress than the United States in the area of affordable housing supply, creating another small but significant difference in the quality of life for lower income households. When the development of large-scale public housing projects was discontinued in the 1970s in both countries, the housing policy responses of Canada and the United States were very different. A permanent stock of good-quality, nonprofit social housing was created in Canada along with a growing and increasingly competent community-based housing development sector (commonly referred to as the "third sector," in contrast to the private and state sectors).

This article reviews the nature of the disparate low-income housing policy paths followed by Canada and the United States starting in the 1970s. It documents the role of federal government housing policy in the evolution of a significant nonprofit third sector in Canada's housing system, the decision of the federal government in the United States to rely on the private sector for subsidized rental supply, and, with very little help from the federal government, the "bottom-up" attempt to develop a nonprofit sector in the United States, a sector that can prosper only with the aid of a national nonprofit housing program similar to that in Canada. The general Canadian approach to consistent national support of nonprofit and cooperative housing is applicable to the United States, and Canada's relative success is not due to unique structural or systemic differences, but to the political choice and political will of the federal government. The United States should look to Canada's 20-year experience to determine

whether some of the mechanisms used to support Canada's non-profit sector might be transferable to the United States.

Political climates for assisted housing

In Canada, there is widespread recognition of what the market can and cannot do—even if massive subsidies are given to private firms. Canada's federal minister for housing, in his 1985 *Consultation Paper on Housing*, noted that federal social housing programs “directed to those who cannot afford decent housing reflect a recognition that private markets, even well functioning ones, cannot deal with these problems” (Canada Mortgage and Housing Corporation [CMHC] 1985a).

This does not mean that the nonprofit housing program in Canada enjoys unqualified support. Like the United States and Great Britain, Canada has recently experienced a conservative federal government that sought to reduce the role of government and cut government-sponsored social programs. Unlike the Reagan and Thatcher regimes, however, Canada's Conservative government, led by Prime Minister Brian Mulroney, did not even consider privatizing existing social housing. Lightman (1991) argues persuasively that the 1980s were not particularly bad for Canada's social assistance system, compared with the United Kingdom or the United States. However, the Conservative government, whose base of support includes the real estate lobby, has substantially cut nonprofit housing expenditures.

The peak year in federal support for Canada's social housing supply programs was 1980, when 31,400 units were funded. (Canada's population is approximately one-tenth that of the United States.) By 1990, as part of the budget deficit reduction initiatives, the Conservative government cut social housing back to 15,000 units. Because of further cuts in the 1992 budget, only 8,200 units could be funded, and the federal cooperative housing program was eliminated. These federal cuts do not mean that Canada's social housing supply policy will be replaced by another approach or that its advocates now lack popular support. It is anticipated that a change in the federal government will restore social housing allocations and the federal cooperative housing program. Further, under its own unilateral program, the Province of Ontario is funding a total of 72,000 social housing units between 1986 and 1994; about a third of them are cooperatives. Because Ontario has the largest population of any province (43 percent of Canada) and the largest metropolitan region (Toronto, with

3.5 million people), its housing policy will ensure that the approach introduced in 1973 will continue to become an increasingly significant and influential part of Canada's housing system in spite of recent setbacks at the federal level.

In contrast to Canada's housing policy politics, the U.S. housing industry played an important role in the evolution of federal housing programs. Private real estate interests have been opposed to the public housing program since its inception in 1937 as a public works employment initiative during the depression. They successfully lobbied Congress to limit public housing to the poor in order to avoid competition with private industry. After the riots of the late 1960s, the housing industry saw an opportunity to argue for increasing subsidized low-rent housing by enlisting the capacity of private builders and landlords. The Housing Act of 1968, which set ambitious goals for a major increase in federally assisted housing, called for increased reliance on private industry. Besides the riots, economic conditions—particularly a serious drop in nonsubsidized housing starts—were a key factor in provoking conservative housing policy lobbyists to seek this major change in housing policy direction.

The rental housing provisions of the housing acts of 1968, 1970, and 1974 initiated programs that were designed to appeal to different sectors of the private housing industry. The Section 236 program (begun in 1968) and the larger Section 8 new construction program (enacted in 1974) were designed to entice private builders to build low-income housing. The Section 8 substantial rehabilitation program (also part of the 1974 act) provided financial subsidies to landlords who owned substandard housing. After President Nixon's temporary moratorium on federally subsidized housing programs in 1973, the Section 8 new construction and rehabilitation programs became the major housing supply programs until the Keagan Administration took office in 1981 and phased them out. Important steps toward increased reliance on tenant-based forms of assistance for use in the existing private rental stock were (1) President Johnson's Committee on Urban Housing (the Raiser Committee), which recommended that a housing allowance be tried experimentally; (2) the Housing Act of 1970, which authorized the Experimental Housing Allowance Program; and (3) the Housing Act of 1974, which started the Section 8 housing certificate program. The Section 8 certificate program was supported by private landlords in major cities with high vacancy rates. From the late 1960s through the 1980s, however, public housing authorities and the fledgling nonprofit sector had little political clout, their voices drowned out by the private

real estate industry of home builders, real estate agents, mortgage bankers, and landlords.

In Canada, the private real estate industry did not have a major influence on low-income housing policy, even after the election of a Conservative government. Social housing supply programs were implemented first. They have been maintained because of ongoing grassroots lobbying and now enjoy broad political and community support. In the United States, in contrast, the political constituencies engaged in the low-income housing issue are very narrow. The coalition that promoted government-assisted housing from the 1940s through the 1970s—builders, mortgage bankers, unions, and housing activists—fell apart in the 1980s. During the past few years, there has been some effort to broaden the housing constituency, but it has been only marginally successful (Dreier, Schwartz, and Greiner 1988).

Reassessment of the public housing program

What is commonly known as “public housing” in Canada and the United States consists of federally subsidized housing owned and managed by public housing authorities with means test criteria that target 100 percent of the units for the very poor. It is a program that epitomizes the characteristics of a residual welfare state activity. Both Canada and the United States initiated this form of direct government provision of housing with great reluctance. The program and the housing units themselves were designed to avoid competing with the private housing market (Bather 1986; Bratt 1986; Dennis and Fish 1972; Rose 1980).

In Canada, there are about 205,000 public housing units—this is about 2 percent of the nation’s housing stock. Eighty-seven percent of the units are less than 20 years old. About 80 percent of the projects contain fewer than 50 units, although the 11 percent of the projects that have more than 100 units account for nearly half of the total stock (CMHC 1990a).

In the United States, there are about 1.36 million public housing units (about 1.4 percent of the nation’s housing stock), built primarily from the late 1940s through the 1970s. The U.S. public housing stock, however, is dwindling. A significant proportion is no longer functional because of neglect and neighborhood blight. In 1988, Abt Associates reported a backlog of \$21.5 billion in needed repairs and improvements (Bain et al. 1988). A more recent study estimated that approximately 86,000 units (6 percent of the public housing stock) are “severely distressed” (National

Commission on Severely Distressed Public Housing 1992). The Reagan and Bush administrations initiated a privatization program, but fewer than 1,500 units have been sold so far.

By the late 1960s, there was widespread dissatisfaction in both Canada and the United States with public housing and the urban renewal projects to which it was usually linked. Housing professionals and activists sought alternatives to public housing programs beginning in the 1960s in the United States and in the early 1970s in Canada. The different alternatives implemented by each country marked the point of divergence in their low-income housing policies, which had been very similar until the early 1970s.

During the 1960s, the U.S. government continued to fund public housing developments, but for-profit projects, subsidized by Washington, steadily overtook the public housing program. The Kennedy administration started a small program (Section 221(d)(3)) to encourage for-profit builders to create moderate-income rental housing. The federal government required owners to provide below-market rents in return for a subsidized mortgage (3.25 percent). After the urban riots of the late 1960s, the shift away from public housing was accelerated by the Housing and Urban Development Act of 1968, which created the Section 236 program. In this program, the federal government provided private developers and a few nonprofit organizations with a 1 percent mortgage and established a market rent. Tenants, however, paid only 25 percent of their income through rent. The program also provided rent supplements for some low-income tenants. Together, the Section 221(d)(3) and Section 236 programs created about 650,000 units.

In January 1973, the Nixon administration's desire to reshape subsidized rental supply policy led to a moratorium on all subsidized housing production, pending a reevaluation. Sweeping changes were introduced by the Housing Act of 1974. The small nonprofit and limited dividend supply program (known as Section 236) and the public housing supply program were terminated to further minimize the direct role of government and of nonmarket approaches to housing supply. The leased public housing (Section 23), the rent supplement (Section 101), and the elderly and handicapped (Section 202) programs were integrated into a new program known as Section 8. Under the Section 8 *project-based* program, the U.S. Department of Housing and Urban Development (HUD) provided low-interest mortgages, tax breaks, and rent supplements to private developers to build or

rehabilitate apartments for low-income households. HUD paid the difference between 25 percent of the tenants' rent and the fair market rent. (The Reagan administration raised the tenants' contribution to 30 percent of income.) This brought most of the United States' new subsidized housing supply expenditures into the private sector. In some cases, state housing finance agencies provided financing for Section 8 developments through tax-exempt bonds.

With the exception of the Section 202 program—a small rental housing program for the elderly—new construction and rehabilitation resulting from project-based subsidies were ended by the Reagan administration in 1981, although projects already in the pipeline were allowed to be completed. Instead, the Reagan administration sought to replace production-oriented housing programs with rent supplements. It slightly expanded the Section 8 tenant-based program, which gave low-income households rent vouchers so they could locate and afford apartments in the private market. The administration also changed the program to allow (but not require) tenants to pay more than 30 percent of their income for rent.

The U.S. approach, relying heavily on the private sector, created a highly unstable low-rent housing stock. At the bottom end, many subsidized units were thinly capitalized and badly managed; many were abandoned by their owners. Many of the projects in HUD's rental subsidy program were ultimately foreclosed. At the opposite end of the market, the financially successful projects were also at risk of being withdrawn from the supply of affordable housing as landlords saw opportunities to convert them to market-rate rental apartments or condominiums, particularly in the hot 1980s housing market. These conversions were possible because the provisions in some federal production programs permitted owners to prepay federally subsidized mortgages after 20 years. The 20-year lock-in periods began expiring in the 1980s. In 1987, Congress enacted a temporary moratorium on prepayments. Three years later, Congress enacted complex legislation that permitted prepayment in limited circumstances, but at the cost of providing owners with additional subsidies ("incentives") to keep them (or another owner who wishes to purchase the development) in the low-income housing business. If HUD cannot find sufficient subsidies to provide owners with a "fair return" on their equity, however, owners can prepay the mortgage and convert their developments to market-rate housing.

In addition, the allocation of profitable housing subsidies has been chronically vulnerable to political favoritism. Scarce grants often went not to the best developers, but to the best-connected ones. The recent corruption scandal at HUD was popularly reported as a story of how Reagan administration officials steered scarce subsidies to political insiders. But the real issue at HUD concerns the roles that government, private developers, and community organizations ought to play in an effective national program for affordable housing.

During the 12 years of the Reagan and Bush administrations, overall federal housing outlays increased to pay for the existing inventory of subsidized units. But budget authority for multiyear commitments for new subsidized housing units dropped dramatically during the 1980s, from \$41 billion to \$10 billion in real terms (Stegman 1991b). The number of subsidized housing starts per year dropped from 175,000 to less than 21,000 (Stegman 1991b). The Reagan and Bush administrations slightly increased the rental allowance program. By 1989, 4.07 million households were living in HUD-assisted rental units: 1.36 million were in public housing units; 1.65 million were in private, project-based developments; and 1.06 million received housing vouchers or certificates (Casey 1992). These numbers represented less than one-third of all eligible households (Casey 1992).

In Canada, the 1973 amendments to the National Housing Act made an equally dramatic change in subsidized rental housing supply programs, but in the opposite direction. Canada switched to what is now known throughout the country as nonprofit social housing. Small-scale projects, developed and managed by local groups, including the residents themselves, were preferred for tenants, for the neighborhoods being asked to accept them, and for the taxpayer paying the subsidy bill. In Canada's social housing program, locally based not-for-profit organizations, including municipal nonprofit housing corporations, assume the roles of owners and managers; the federal government and the private sector are excluded from these roles.

As in the United States, Canadian public housing was often part of large urban renewal projects and produced a number of large-scale, high-rise projects. The reelection of a majority Liberal government in 1968, during a period when urban affairs and housing were very high on the public agenda, led to the creation of a Federal Task Force on Housing and Urban Development. Task force members traveled the country collecting the views and advice of citizens and local officials. A task force report

strongly criticized the bulldozer approach to urban renewal and to large-scale public housing projects (Canada, Federal Task Force 1969). Both of these programs were phased out, and the debate over improved programs continued for several years.

Just as the Liberal government was to adopt major new housing programs in 1972, it failed to win a majority of seats in the national election and required support from the New Democratic Party (NDP) in Parliament, a social democratic party in a three-party system. In exchange for its temporary support (i.e., not allowing the Liberal government to fall in a vote of no confidence), the NDP obtained Liberal support for parts of its agenda. The proposed housing legislation was amended, resulting in a similar but more comprehensive set of housing programs. The 1973 amendments to the National Housing Act introduced public, private, and cooperative versions of nonprofit housing as well as rural and native nonprofit housing programs. It is this group of related housing programs that now is commonly referred to as social housing, meaning that they are socially assisted (receive direct subsidies) and that they house people from a broader social and income mix than the previous public housing program. The economic conditions of the times, the need to replace urban renewal and public housing, and the national political situation created the political will to innovate with an approach built on community-based nonprofit organizations.

In 1973, therefore, the Canadian federal government created a new form of socially mixed nonmarket housing provided through community-based and municipal nonprofit organizations. In addition to the long-term financial subsidies for building housing, the program provided assistance to help community groups, church organizations, labor unions, and municipal governments to become sophisticated housing developers. For the past two decades, new direct federal expenditures on low-cost rental housing have been directed almost exclusively to this third sector.

Since 1973, Canada has built about 250,000 social housing units (about 2.5 percent of the total housing stock). During the same period, the United States provided subsidies for about 1.3 million Section 8 new construction and rehabilitation units (about 1.3 percent of the total housing stock). With a population of about 25 million, Canada subsidizes a slightly greater proportion of its total housing stock than does the United States (population 250 million)—about 5.5 percent compared with 4.5 percent. However, more than half of the subsidized units in the United States are owned by private, for-profit landlords (Section 8 units) and

none have long-term affordability requirements, so they are not a permanent form of social housing in the Canadian sense. In addition, although no comparative study has been performed, Canada's nonprofit housing is probably of much higher quality than Section 8 units. If just the nonmarket, subsidized rental stock is counted, only 2 percent of the U.S. housing stock is in this category; that is, the U.S. housing system relies almost totally on the market for housing supply and management. Further, despite recent passage of "expiring use" legislation, there is still potential for substantial loss to this portion of the U.S. low-income housing stock.

Canada's social housing

What are some of the features of Canada's social housing? Canada's nonprofit housing generally consists of low- and mid-rise structures averaging about 50 units and located in all parts of metropolitan areas, central city as well as suburban. These structures are carefully integrated into existing neighborhoods, avoiding the stigma frequently associated with low-income projects. Until recent federal program changes implemented by the Conservative government, they were also mixed socially, housing a range of low- and moderate-income households. The social housing programs are designed so that most residents pay about 25 to 30 percent of their income for rent. Between 25 and 100 percent of the households in a social housing project pay rent based on their incomes. A formula determines what they are able to pay, and a federal subsidy (a rent supplement paid directly to the nonprofit corporation) covers the rest.

A key feature of all of Canada's social housing programs is that the land and housing units are permanently removed from the real estate market. All nonprofit housing organizations and housing cooperatives enter into binding agreements tied to their mortgage financing that guarantee the not-for-profit nature of the housing. Unlike Section 8 units in the United States, social housing in Canada remains permanently affordable by remaining outside the housing market.

Canada's third-sector housing includes three types of nonprofit organizations. The "public nonprofits" are housing companies established by local government. The "private nonprofits" are established by church groups, unions, and community organizations. Housing developed by the public and private nonprofit groups is similar, except for who owns and manages them.

Municipalities that build housing under the federal nonprofit program generally establish housing authorities to manage the units. The board of directors is usually appointed by a municipal council and often includes council members; the appointment of tenants to the board is increasingly common. Private nonprofit groups are just that—private corporations operated on a not-for-profit basis under the regulations of the program. There is a wide variety of private nonprofit organization types, ranging from ethnic or church groups, which build only one project for senior citizens associated with the group, to highly innovative and often community-based organizations, which build several projects to meet particular needs, such as specialized forms of housing for groups in the inner city or special types of transitional and supported housing.

When the Conservative government completed its review of housing policy in late 1985, its policy document provided the following five-point description of the program for public and private nonprofit housing:

- Assistance will be provided to public and private nonprofit organizations...to construct, acquire, own, and manage housing units for households in core housing need and special purpose groups.
- Government assistance for projects without care or support services will be equal to the difference between the operating costs, including mortgage repayment, and rental revenues.
- Government assistance for the residential portion of special-purpose projects will be in the form of an interest write-down to 2 percent. The number of special-purpose projects will be controlled through the application of a 10 percent cap on the total number of units within a province that can be used for this purpose.
- Tenants will be charged rents based on 25 percent of their adjusted household income.
- Income mixing will continue but within the limit of households unable to afford private accommodation without having to pay more than 30 percent of their income for housing (CMHC 1985b, 12).

During the early 1980s, CMHC sought to develop an improved method of determining housing need—those households unable to

obtain market housing that is adequate in condition and size and is affordable (using 30 percent of household income as a guide). What is now called the Core Housing Need Model is an indicator of total housing need combining measures of housing adequacy, suitability, and affordability. It is based on data collected every two years from a specially designed Shelter Cost Survey carried out for CMHC by Statistics Canada, a government agency (CMHC 1991). It is used to help target and allocate federal social housing units.²

The nonprofit, nonequity cooperative housing program is the most innovative—and therefore the most closely watched and evaluated—component of Canadian social housing supply (CMHC 1983, 1990b, 1992; Hulchanski 1988; Laidlaw 1977; Selby and Wilson 1988; Wekerle 1988a, 1988b; Wekerle and Novac 1988). It is also the subject of a recent book, *New Neighbours: A Case Study of Co-operative Housing in Toronto*, which thoroughly reviews all aspects of developing and living in Canadian cooperative housing (Cooper and Rodman 1992). Unlike the other two types of nonprofit organizations, members of housing co-ops actually own and manage their projects. It is a nonequity form of homeownership. In 1985, the federal minister of housing stated that his government's objective in continuing to fund the cooperative housing program was "to promote security of tenure for households unable to access home-ownership" (CMHC 1985b). He further described the cooperative program and its objectives as follows:

² In the 1980s, the Reagan and Bush administrations also sought to target subsidies to the most needy. This approach was justified in terms of allocating limited funds to the "truly needy" (Nelson and Khadduri 1992). By doing so, however, this approach has isolated the very poor and undermined broad public support for government housing assistance among many poor and almost-poor households that simply do not fit the latest, somewhat arbitrary definition of "needy" (Cavanaugh 1992; Stegman 1992). For example, the 5.1 million households identified by HUD as having "worst case" housing needs (HUD 1991) are far below the number of households that are eligible for, but do not receive, federal housing assistance, according to HUD's own figures (Casey 1992). In addition, the federal government's methods for determining income eligibility cutoffs and housing need may be obscuring the true extent of housing problems and eliminating households that should be considered eligible for, and that legitimately need, federal housing assistance (Dolbeare 1991; Lazere et al. 1991; Ruggles 1990; Schwartz and Volgy 1992; Stone 1990). A narrow targeting approach also makes it difficult or impossible to create mixed-income housing with federal assistance, which has been one of the strengths of the Canadian social housing sector and an increasingly attractive approach to nonprofit groups in the United States.

The Co-operative Housing Program has served moderate and middle income households as well as households in core need. The orientation of the new program recognizes the dual objectives of co-operatives—a social housing objective and an objective of providing security of tenure as an alternative to home-ownership (CMHC 1985b, 30).

This focus on nonequity, nonprofit co-ops as an alternative to conventional homeownership for low- and moderate-income households permitted a continued policy of having a broader income mix in co-ops, whereas the public and private nonprofit programs were targeted by the Conservative government more strictly to lower income households whose incomes were too low to access private rental housing (CMHC 1985b).

Co-op housing units cannot be sold or even passed on to a friend. When someone moves out, another household from the co-op's waiting list moves in. Residents do not invest in them and so take no equity when they leave. Canada's 1,740 housing co-ops (with 72,000 units) are a democratically owned and managed version of subsidized housing. Seventy percent of Canada's housing cooperatives are managed directly by the residents on a voluntary basis. About 30 percent of the cooperatives, usually the larger ones, retain full- or part-time paid staff (CMHC 1992a).

The cooperative housing delivery sector has grown to 14 regional federations and 81 resource groups (development consultants) that provide a wide range of development, management, and financial services as well as being involved in general cooperative sector activities. Most are nonprofit organizations under community, cooperative, or employee control, and about three-quarters are members of the national organization, the Co-operative Housing Federation of Canada (CMHC 1992a). The most recent federal evaluation of the cooperative housing program found that these community-based resource groups are "effective in involving housing co-operatives in the development and management of their projects" and that most "are usually involved in providing development services to co-operatives for over a year after the project" is completed (CMHC 1992a). The aim is to help develop communities, not just housing projects.

Canada's approach to social housing, therefore, provides a full range of options to suit local needs and special-needs groups within the population, including (in the case of cooperatives) the desire for self-managed housing. The programs also provide the opportunity to experiment with new mortgage instruments that may be applied to more forms of housing in the future.

The social housing programs introduced in 1973 have provided an opportunity for municipalities to play a larger role in providing affordable housing. In the past, municipal governments would occasionally study local housing issues and use their regulatory authority to affect housing supply and maintenance—through zoning, building, and safety codes. In providing housing, they generally left the active role to the private sector and, in the case of subsidized housing, to the provincial and federal governments. Like the United States, Canadian municipalities rely primarily on property taxes for funding; historically, the inadequate tax base has limited the range of activities undertaken by municipal governments.

The municipal role began to change in the 1970s (Carter and McAfee 1990; Hulchanski et al. 1990). Canada's larger cities grew rapidly, and citizens clamored for affordable housing. They elected reform-minded politicians who supported more direct government involvement in the supply of housing. Several cities provided land for social housing at below-market value, and others offered zoning bonuses to make social housing financing formulas work on expensive land. Many municipalities established housing corporations to develop social housing. Toronto, for example, created a municipal nonprofit housing corporation in 1974 with a broad mandate, including research, land acquisition, construction of social housing, purchase and renovation of existing housing, property management, and housing policy and program coordination for the city. It has built and manages about 7,000 nonprofit housing units and has a development program that produces 500 to 600 new units per year. The board of directors that manages this portfolio is drawn from the city council, tenants, and the community at large.

The important lesson provided by Canada's third sector, social housing approach to subsidizing housing is that local and community-based organizations can create good-quality housing and that this housing can remain a permanent community asset, never to be sold to speculators or converted to upscale units. Canada has created the foundation for solving the housing problems of low- and moderate-income groups on a permanent basis.

Cost and funding considerations in Canada's social housing program

Attempts by political conservatives and the real estate lobby to replace Canada's social housing supply programs with a U.S.-

style private rent supplement or voucher approach to housing subsidies have been vigorous at times. Canada has a small private rent supplement program, which dates back to 1970. During the past decade, new commitments have averaged about 1,500 units per year, mainly to address special situations in different regions of the country (CMHC 1992b). Instead of any conclusive evidence about the comparative long-term cost-effectiveness of alternative housing subsidy options (analysis that is very difficult to perform in a convincing and conclusive fashion), common sense arguments, in the end, have greatly influenced the public debate. In Canada, the argument that has generally prevailed is: If it is financially advantageous over the long term for individual households to become homeowners, why should not the same logic apply to public-sector investment in housing? The long-term benefits of individual ownership over renting have been supported by the findings of a study performed for the Canadian Home Builders' Association:

In general, owners' shelter costs are greater than renters' for several years following the purchase of a home. However, over time, rents rise with inflation while the main component of owners' shelter costs (the mortgage payment) stays relatively constant (except when interest rates rise). As a consequence, over the long-term, owners' shelter costs are significantly lower than renters'. This is particularly true once the mortgage is repaid (Clayton Research Associates 1992, i).

The analogous choice in the housing subsidy cost-effectiveness debate is between owning (public or nonprofit housing options) and renting (rent supplement or housing voucher options).

The Ontario government's Ministry of Housing has recently compiled the average per-unit subsidy costs for its huge public housing portfolio (about 84,000 units), for its private-sector rent supplement program (20,000 units), and for the monthly subsidy cost of the new nonprofit housing units it is providing this year (there are a total of 117,000 nonprofit housing units in the province). These figures offer no conclusive proof in the debate between the cash transfer approach (rent supplements or vouchers) and the in-kind transfers approach (social housing supply), but they do contribute to the long-term versus short-term cost-effectiveness. The current (1992–93) subsidy costs for public housing, including both the federal and provincial share of the subsidies, is less than \$300 Canadian per unit, which includes the average capital costs per unit of a large-scale repair to the portfolio that is occurring this year. These costs are less than the \$400 to \$500 per unit average for the private sector rent supplement units. The average subsidy cost of the new nonprofit

housing units is about \$950 per month (unpublished data supplied by the Housing Policy Branch, Ontario Ministry of Housing, Toronto, January 1993).

As with homeownership, however, the monthly costs of the nonprofit housing units are highest in the initial years and decline over time. Like public housing units, the nonprofit units will eventually have a relatively low monthly subsidy cost. Based on the limited evidence available, many advocates of social housing in Canada assert that the nonprofit housing program, even with its higher initial costs, is eventually much more cost-effective than the rent supplement program.

In late 1992, the Program Evaluation Division of Canada Mortgage and Housing Corporation began a thorough evaluation of the urban component of the nonprofit housing program, a process that will take about two years (CMHC 1992b). Other than a partial and smaller-scale review ten years ago, there has been no separate program evaluation of public and private nonprofit housing. It is difficult to generalize about the federal nonprofit program because it actually comprises several related programs that have been modified many times during the past two decades. The program is flexible to help meet local special needs as well as to adjust to regional housing conditions. It also includes an urban native nonprofit component, as well as rural and native on-reserve housing. Without a major evaluation study, we lack detailed data on the public and private nonprofit sector as well as cost comparisons with other program options. There has been little evaluation of the program itself because it has not been very controversial and its administration and the type of housing produced has been well received in communities across the country. The debate has been at the higher political and ideological level—over the size of the program (whether the government should be doing more) and over whether rent supplements (or housing vouchers) should be used more extensively than, or instead of, social housing supply (the cash transfer versus in-kind transfer debate).

Evaluations of the cooperative housing program by the federal government, however, have consistently found that the self-management feature of cooperative housing pays off. Because housing costs in cooperatives are based on actual operating expenses, cooperative members have an incentive to run their housing efficiently. The 1983 evaluation found that operating costs in public housing were, on average, double those in co-ops and that operating costs in nonprofit housing were 15 to 60 percent

higher than in co-ops, depending on the type of project (CMHC 1983). In the 1992 evaluation operating costs were found to be lower than other forms of subsidized housing: "Average operating costs for public and non-profit housing are from \$2,700 to \$6,800 per unit, depending on the particular program involved, compared to less than \$3,000 for all types of co-operative housing programs" (CMHC 1992a, 328).

During the past decade, several of the provincial governments have funded their own social housing programs. In 1986, to encourage the provinces to become more active in housing, the federal government entered into agreements with each province whereby the province would play a more significant role in implementing federal social housing programs in its jurisdiction. In exchange, the provinces began paying a share (about 25 percent) of the program costs (Banting 1990). Before that time, the federal government financed the full subsidy cost of the nonprofit program.

Until 1986, the co-ops and the other nonprofit organizations used a similar funding formula. In 1986, the federal government and the cooperative housing movement agreed to experiment with a new mortgage instrument, the index-linked mortgage (ILM), rather than the equal-payment mortgage (EPM). Interest rates on index-linked mortgages are based on a fixed "real" rate of return (the rate of return the lender wants after inflation) plus a variable rate that is adjusted according to inflation. Unlike with EPMs, no provision has to be built into the rate of interest to take account of inflation risk. Therefore, the initial payments of ILMs are much more affordable to potential borrowers. To maintain the real rate of return that the lender wants, the interest rate is adjusted periodically according to the rate of inflation over the previous year (CMHC 1986). After five years, the federal evaluation of the new mortgage instrument found that rates lower than real interest rates for comparable investments were realized by the ILM, making it "a more cost-effective mortgage instrument than the EPM." The savings helped make the ILM formula "a more cost-effective way to deliver co-operative housing" than the previous formula (CMHC 1992a, 329–30).

The nonprofit housing sector in the United States

With the privatization of low-income rental housing supply programs, especially since 1973, and then the dramatic withdrawal of funds for most forms of federal housing assistance during the

Reagan and Bush administrations, the advocates of the U.S. nonprofit housing sector have faced an enormous challenge (Hays 1985). In the United States, nonprofit housing groups have existed since the late 1800s and early 1900s, when settlement houses, labor unions, and wealthy philanthropists built apartment houses and cooperatives for working-class families (Birch and Gardner 1981; Keating, Rasey, and Krumholz 1990). In the 1960s and early 1970s community activists in the United States, particularly those located in inner cities and rural areas, formed community development corporations (CDCs) to fight the war on poverty and to gain “community control.” In many cases, their efforts were the only development activities taking place in these communities (Keating, Rasey, and Krumholz 1990; Kelly, Kelly, and Marciniak 1988; Mayer 1984; Peirce and Steinbach 1987, 1990; Powell 1987; Skloot and Seip 1989; Zdenek 1987). The two biggest patrons of CDCs were the Ford Foundation and the federal government. Between 1972 and 1981, the federal government funded about 100 CDCs to engage in business development, human services, and housing, while a few hundred more CDCs were formed by community activists, churches, and social service agencies. A few small federal programs—the Community Service Agency’s Title VII program, HUD’s Neighborhood Self-Help Development Program and Neighborhood Development Demonstration Program, and the Comprehensive Employment and Training Act’s job-training program—helped pay part of the CDCs’ operating costs. All were axed by the Reagan administration (Mayer 1990). The Ford Foundation made its first direct grant to a CDC, the Bedford-Stuyvesant Restoration Corporation, in 1967. Through the late 1960s and 1970s, Ford continued to support CDCs in Chicago, Los Angeles, the Mississippi Delta, and elsewhere. In 1979, Ford created the Local Initiatives Support Corporation (LISC) to promote the CDC movement (Ford Foundation 1989; Peirce and Steinbach 1987).

Evaluations of these early nonprofit groups report modest success in completing development projects. But many of these groups were organizationally and financially unprepared to undertake large-scale community economic revitalization. Some projects and groups fell on hard times and failed. Although the for-profit and nonprofit development groups that participated in the federal government’s housing programs during this period had roughly similar rates of success and failure, the CDCs’ mistakes were more visible (Mayer 1984, 1990, 1991; Vidal 1989, 1992).

The groups that survived the 1970s faced a new decade with few federal resources and little collective understanding of their own

history, accomplishments, and problems. Still, during the 1980s, as federal housing assistance dried up, the number of community-based nonprofit groups engaged in housing mushroomed. According to a recent survey by the National Congress for Community Economic Development, the number of these groups has increased 10-fold to about 2,000 in the past decade. These groups, originating in community organizations, churches, unions, social services agencies, and tenant groups, have developed or renovated almost 320,000 housing units and created (or retained) almost 90,000 permanent jobs. Thirty-nine percent of the CDCs in the survey had been in business for less than 10 years (National Congress for Community Economic Development 1987, 1989, 1991).

Because there is no national support system for nonprofit developers (as in Canada), it is difficult to assess their overall impact. In the absence of a major federal low-income housing production program, nonprofit entrepreneurs have had to patch together resources from local and state governments, private foundations, businesses, and charities (Mayer 1990, 1991). A recent study by the New School for Social Research found that these nonprofit groups have succeeded in building and rehabilitating affordable housing in inner-city neighborhoods against overwhelming odds. The study discovered that subsidy funds went to build housing for the poor, not to supply fancy offices or extravagant consulting fees. Most groups began by fixing up a small building or two (Vidal 1992).

Few of the nonprofit groups that had served as housing sponsors (a relatively passive role) under the previous federal housing programs survived through the 1980s. A new generation of nonprofit organizations emerged. Many viewed themselves as part of a growing "neighborhood movement," local activism that evolved out of the protest movements of the 1960s and 1970s (Boyte 1980, 1989; Boyte and Riessman 1986). These groups pressured government officials to give neighborhood residents a stronger voice in neighborhood development issues, public safety problems, and the provision of human services. At the same time, an emerging notion of "privatization" led government agencies at all levels to contract with nonprofit organizations (mostly community-based) to deliver services once monopolized by the government (see Hodgkinson, Lyman, and Associates 1989).

With the dismantling of the profitable federal housing programs during the 1980s, most private for-profit builders stopped engaging in subsidized low-income housing construction and

rehabilitation. As the housing crisis in major cities and some rural areas heightened, elected officials at local, county, and state levels confronted increasing pressure to address the housing problems of the poor. A growing number of states and cities turned to the fledgling nonprofit sector for help.

Before the 1980s, most large- and middle-size local governments in the United States ran public housing authorities and regulated housing through zoning and building codes; a few cities adopted laws to protect renters from skyrocketing rents and arbitrary evictions. In the development of low-income housing, cities generally served solely as conduits for federal funds. During the 1980s cities took increasing initiative to help expand low-cost housing. In addition to targeting more of their shrinking federal community development funds to housing, they also donated land; eased zoning, building code, and fee requirements; expedited approvals; provided tax abatements; and created off-budget housing trust funds from special assessments. Some cities created linked development (or linkage) programs to fund housing (Dreier and Ehrlich 1991; Goetz 1992; Vidal 1992).

As part of the more proactive approach to housing and community development, a growing number of local governments have provided support to the nonprofit housing sector. Rather than undertake development themselves, most cities have used community-based nonprofit groups as the vehicles for housing development and rehabilitation (Bishop 1991; Dreier and Keating 1990; Goetz 1992; National League of Cities 1989; Nenno 1986; Peirce and Steinbach 1987, 1990). Some cities have encouraged the formation of community-based nonprofit groups to undertake projects that they believed neither public agencies nor for-profit developers could accomplish successfully or with the same level of acceptance by neighborhood residents.

In Cleveland, Boston, Chicago, San Francisco, Baltimore, Providence, Pittsburgh, New York, Minneapolis, and other cities, business leaders have joined government officials, foundations, and neighborhood groups to form public-private-community partnerships. These partnerships typically serve as umbrella organizations to raise operating funds for CDCs, offer financing for housing projects, streamline approvals, and expand the capacity of nonprofit organizations to undertake large-scale development (Suchman 1990).

During the 1980s, state housing agencies also expanded their housing development programs, and a few states provided

substantial funding to nonprofit groups (Bishop 1991; Nenno 1986). Some state governments provided funds for technical assistance to help nonprofit groups improve their capacity to build, own, and manage housing. Some set aside a portion of their housing development budgets specifically for nonprofit organizations. During the Dukakis administration, Massachusetts had perhaps the most expansive state program to assist nonprofit organizations (Bishop 1991; Nenno 1986).

Both city and state housing agencies have also used the federal low-income housing tax credit, created in 1986, to generate new housing. The growing nonprofit sector, helped by intermediary groups such as LISC and the Enterprise Foundation, took advantage of the tax credit to create housing.

Unlike the situation in Canada, private foundations and private business groups played key roles in supporting the nonprofit housing sector in the United States during the 1980s. A study by the Council for Community-based Development found that in 1987, 196 corporations and foundations made grants totaling almost \$68 million to support nonprofit development in the United States. By 1989, the numbers had grown to 307 funders and \$104 million. That year, 55 of the nation's 100 largest foundations provided grants to community-based development projects (Council for Community-based Development 1991). By 1991, the numbers had grown to 512 funders and \$179 million (Council for Community-based Development 1993).

The emergence of private "intermediary" organizations has catalyzed the expansion of the nonprofit sector. These groups provide technical assistance to nonprofit organizations, expanding their capacity in finance, construction, organizational development, and other areas. They also help attract private funding (mortgages from lenders, tax credits from corporations, and grants from foundations) for CDC operations and development projects. In particular, two entities—LISC and the Enterprise Foundation—have been major catalysts for corporate and foundation support to CDCs. Since LISC's creation in 1979, it has helped more than 700 CDCs in 30 cities produce more than 29,000 units for low- and moderate-income residents (as well as more than 6 million square feet of commercial and industrial space). Developer James Rouse, famous for his new town of Columbia, Maryland, and for urban festival marketplaces in Baltimore, Boston, and New York, set up the Enterprise Foundation. Since 1982, Enterprise has provided financial and technical help (i.e., construction techniques) to more than 190 CDCs in 28 communities, adding

more than 17,000 housing units (LISC and Enterprise Foundation annual reports).

In 1978, responding to public outcry about the banking industry's redlining practices, Congress created the Neighborhood Reinvestment Corporation, chartered to set up local coalitions (called Neighborhood Housing Services [NHS]) of banks, local governments, and neighborhood residents to improve housing conditions in urban neighborhoods. There are 304 NHS chapters in 145 cities. Most of these groups have focused primarily on providing relatively small loans to homeowners to repair and maintain their homes. Through these efforts, NHS groups have helped repair nearly 100,000 housing units. A growing number of NHS groups evolved into nonprofit development organizations (Neighborhood Reinvestment Corporation annual reports).

In the late 1980s, Boston's United Way began funding CDCs, an experience so successful that the United Way of America began to fund similar projects in Houston; Chicago; Rochester; York, Pennsylvania; and Pontiac, Michigan (Community Information Exchange and United Way of America 1988). The Lilly Endowment, a large Indianapolis-based foundation, recently established a program to foster cooperation between church groups and nonprofit community developers. There are other national and regional networks of nonprofit housing organizations, as well. The Georgia-based Habitat for Humanity has a network of local groups with roots in Protestant churches. The McAuley Institute provides technical support to local housing groups affiliated with the Catholic Church. The Development Training Institute in Baltimore, Community Builders in Boston, Community Economics in Oakland, the Chicago Rehab Network, and the Institute for Community Economics in Springfield, Massachusetts, are five of a growing number of organizations that provide technical assistance to help nonprofit groups improve their management and development capacities.

In contrast to Canada, where nonprofit housing is located throughout metropolitan areas, many suburbs in the United States still resist low-income housing, so most nonprofit organizations are located in inner cities and rural areas. There are exceptions, however. For example, in the wealthy community of Santa Barbara, California, where the average home sold for more than \$275,000 in 1989, the nonprofit Community Housing Corporation has constructed 492 units—including single-family homes, limited-equity cooperatives, a rooming-house hotel, and

apartments—for low-income families, elderly residents, and the homeless.

U.S. nonprofit groups operate in a complex political, financial, and social environment. Most nonprofit development groups have low-income community residents on their boards. Many get involved in other neighborhood improvement projects in addition to their housing-related activities. How much control these groups have over the development and management of their housing projects varies greatly. Some foundations, corporations, lenders, and government agencies place substantial, and often competing, requirements on their funding, whereas others give nonprofit groups greater leeway.

Obstacles confronting the U.S. nonprofit sector

Even with allies in local and state government, business, and foundations, the nonprofit housing sector in the United States faces at least five serious obstacles to moving into the mainstream.

First, the nonprofit sector is composed mainly of relatively small organizations, which have limited ability to achieve economies of scale in terms of development, staffing, management, and overall community impact. Of the 1,160 groups responding to the National Congress for Community Economic Development (NCCED) survey, only 421 had produced 100 or more housing units (National Congress for Community Economic Development 1991). This number represented a significant increase from the 244 groups with that production level only two years earlier, but it reveals that most CDCs are still small-scale operations.

Difficulties associated with the small size of most CDCs are exacerbated by the complexities of their task, especially under adverse funding conditions. The patchwork of available funding sources makes the development of affordable housing extremely complex. To create a 25-unit housing development, for example, a CDC may need to obtain subsidies and grants from 10 different sources, including corporations, foundations, and governments. The various funding programs have different—and often conflicting—deadlines, timetables, and guidelines. As a result, CDC staff often spend more time “grant grubbing” than developing and managing housing. The legal and financial complexities also require CDCs to pay many lawyers and consultants, adding to the cost and time for launching housing projects.

Second, it is difficult to recruit and retain skilled staff in the nonprofit sector. Most nonprofit housing development groups live from year to year and project to project because they do not have a steady, predictable stream of operating funds. Many

people join the nonprofit world as part of a larger social change agenda, not to get rich. But the frustrations, relatively low pay, and insecurity of working in the nonprofit sector lead to a high rate of staff burnout and turnover.

Because most CDCs have small staffs, there is little room for upward mobility in the organization, and because the nation's nonprofit sector is relatively small and fragmented, there is no clear career path. Some CDC staff go to work for organizations like LISC, Enterprise, or technical assistance groups. In cities that support the nonprofit sector, such as Boston, Chicago, New York City, and Baltimore, there is often a "revolving door" between the CDCs and government agencies (which typically offer higher salaries and, in some cases, more job security).

Many CDC staffers come from the protest and neighborhood movements of the past few decades. Some studied planning and real estate development in college or graduate school, but most learned the highly technical skills required to do development "on the job." Groups such as LISC, Enterprise, National Training and Information Center, Neighborhood Reinvestment, Development Training Institute, and others offer day- or week-long training programs for CDC staff. But the CDC "industry" still has not developed a coherent professional training program.

Third, the capacity of CDCs to revitalize entire neighborhoods is undermined by the small scale of individual CDC organizations, the scarcity and unpredictability of operating and development funds, and the minimal efforts of most local governments in planning and development. CDCs typically work on an incremental, project-by-project basis. In some cases, these efforts fit into a larger overall vision. Some CDCs engage in comprehensive neighborhood planning, on their own or in tandem with local government agencies. Even for groups with the resources and skills to undertake these efforts, however, the plans often go unrealized because the resources are not available to implement them. Thus, CDC projects are often isolated efforts within the larger canvas of neighborhood decay.

Fourth, CDCs act as owners and managers of rental and cooperative housing or as small business enterprises. So, despite their social reform mind-set, CDCs are also landlords and employers

and therefore have a potentially adversarial relationship with their tenants and employees. The CDC-as-landlord issue is particularly troublesome because CDC projects usually serve the very poor, who have the attendant problems of crime, drugs, single parenthood, and related issues (Keyes 1992). Some CDCs have developed mixed-income housing, but because these groups typically work in the most troubled neighborhoods, it is difficult to attract middle-class residents. Further, the funding sources for most subsidized housing projects (such as the federal low-income housing tax credit) typically require that housing serve only (or predominantly) low-income households.

As more and more CDCs face the realities of becoming landlords and managers, they have recognized the need to deal with the *human* issues as well as the bricks-and-mortar issues. Moreover, most CDCs realize that the problems facing tenants are larger than a well-managed building alone can solve. CDC-sponsored buildings—whether rental, co-op, or ownership—cannot succeed as islands of good management in a sea of neighborhood problems.

A growing number of CDCs have sought to develop programs in job training, counseling, recreation, and child care and even tenant-organizing and neighborhood crime-watch programs to address the social and economic needs of residents. The Resident Resource Initiative Program of the Metropolitan Boston Housing Partnership, for example, provides funds for CDCs to hire organizers, social workers, and other advocates to assist residents. The Westminster Corporation in St. Paul, Minnesota, has a similar program. However, few CDCs have the resources to engage in these efforts. The tight operating budgets for low-income housing rarely provide for adequate security, much less the host of other concerns. As housing policy experts increasingly recognize the important link between housing and social services, they hope that such services will be incorporated into federal operating budgets for subsidized housing.

Fifth, and finally, the nonprofit sector is caught in an inherent tension regarding the role of CDCs as community-based housing organizations. For the most part, these groups define themselves as *developers*, focusing on the bricks-and-mortar issues of building housing. The day-to-day tasks of accomplishing just this goal are overwhelming, but these groups also are engaged in revitalizing and empowering neighborhoods, which requires mobilizing community residents, often around controversial issues and against powerful foes—banks, corporations, politicians, and

others. Because most CDCs must rely on these institutions for funding and support, some are reluctant to challenge the actions of banks that engage in redlining; politicians who ignore the needs of low-income neighborhoods; or private firms that discriminate in hiring practices, pollute the neighborhood environment, or pay poverty-level wages (Hadrian 1988).

With some notable exceptions, the corporations, foundations, governments, and other groups (such as LISC and Enterprise) that provide support to CDCs favor the development agenda over the organizing and mobilizing agenda. So, few CDCs devote much time, resources, or thought to organizing, but some groups do engage in both development and organizing. For example, the Industrial Areas Foundation works with a network of community organizations, such as East Brooklyn Churches in New York City and BUILD in Baltimore, that are involved in Alinsky-style direct-action organizing and also develop affordable housing as part of their neighborhood improvement efforts. In Lowell, Massachusetts, the Coalition for a Better Acre recognizes the complementarity of development and organizing efforts. The national group, ACORN, also engages in both activities through some of its local chapters.

These obstacles are ultimately rooted in the severe shortage of funding available for affordable housing in the United States. The bootstrap approach has serious limitations (Hodgkinson, Lyman, and Associates 1989; Mayer 1991; Roberts and Portnoy 1990; Stegman 1991a; Sternleib and Hughes 1991). Subsidy funds, required to fill the gap between what poor and working-class families can afford and what housing costs to build and operate, are scarce (Cavanaugh 1992; Nelson and Khadduri 1992; Stegman 1992). The fragmented nature of the nonprofit sector has made it difficult to develop the kind of organizational coherence and political support that is found in Canada. Even in the relatively small world of the nonprofit housing sector, there is considerable competition among the various national and regional networks (LISC, Enterprise, National Low-Income Housing Coalition, Neighborhood Reinvestment, and the NCCED) over who can speak for the movement. At the national level, NCCED serves as the major trade association for the nonprofit groups, but NCCED has neither the resources nor the capacity to mobilize the nonprofit organizations' staff, board members, and tenants. In most cities and states, CDCs and nonprofit groups have no organized voice or have a weak network with little political influence. During the 1980s, the nonprofit sector was relatively im-

potent in mobilizing political pressure to expand federal housing funds (Bratt 1987, 1990).

Recent federal legislative developments affecting the U.S. non-profit sector

By the early 1990s, however, the nonprofit housing sector had established a sufficient track record and enough political credibility to gain some federal support for its efforts. Three small but important pieces of federal legislation reflected, in part, the growing legitimacy of this sector. These include the following:

1. *Community Housing Partnerships*. In 1987, at the request of Boston Mayor Ray Flynn, Congressman Joseph Kennedy (D-MA) sponsored the Community Housing Partnership Act to provide federal funding specifically to help community-based nonprofit groups build and rehabilitate affordable housing for families. A variety of organizations, including the U.S. Conference of Mayors, the National Low-Income Housing Coalition, and the nonprofit sectors' various networks (LISC, Enterprise, NCCED), lobbied on behalf of this legislation.

That same year, developer James Rouse (head of Enterprise) and David O. Maxwell (chairman of Fannie Mae) convened a National Housing Task Force at the request of Senator Alan Cranston (D-CA), co-chair of the Senate Committee on Banking, Housing, and Urban Affairs. Composed of a prestigious panel of housing experts, the group issued its report, *A Decent Place to Live*, in March 1988, calling for increased federal commitment to low-income housing and a specific financial set-aside for the nonprofit sector.

The recommendations of the Rouse-Maxwell report were eventually translated into the National Affordable Housing Act, which was enacted by Congress in October 1990. This legislation included a new program, HOME, that directed \$1.5 billion to state and local governments for affordable housing in fiscal year 1992. Congressman Kennedy's proposal, Community Housing Partnerships, was folded into the HOME program, which required that a minimum of 15 percent of HOME funds be allocated to community-based nonprofit organizations.

2. *Low-Income Housing Tax Credit*. In 1990 and 1991, the nonprofit sector also successfully mobilized support to extend the

federal low-income tax credit, a program that many CDCs use to obtain private investment in their housing projects. The tax credit is a limited tool; its complexity requires an army of lawyers, and its low-income requirements extend only 15 years. But groups such as LISC and Enterprise have successfully marketed the tax credit to major corporations, which derive both profit and high-profile “social responsibility” credit from this program.

3. *Community Reinvestment Act.* The nonprofit sector also successfully lobbied Congress in 1990 and 1991 to strengthen the Community Reinvestment Act (CRA), the antiredlining law that gives community groups and local governments the leverage to pressure banks to invest in inner cities. Under pressure from community activists, many banks have sought to demonstrate their commitment to the goals of the CRA by initiating or expanding support for CDC-sponsored developments. In 1991, after these battles over the CRA, LISC and the Enterprise Foundation—along with activist groups such as ACORN and the Center for Community Change—formed a new Community Reinvestment Coalition, funded by several large national foundations. The coalition will help coordinate the work of the nonprofit sector and other housing advocacy groups regarding CRA-related issues.

Conclusion

What accounts for the very different evolution in the approach to subsidized rental housing in Canada and the United States during the past 20 years? This difference is surprising, given the similarity in other aspects of the housing system in both countries. It is also surprising because of the similarity in their pre-1970 public housing and urban renewal programs. Before the 1970s, Canada’s housing policy was largely a carbon copy of that in the United States, with specific programs and similar program revisions implemented several years after their implementation in the United States.

The divergence in policy is due largely to a difference in political philosophy at the federal level in both countries during the past 20 years. Although the evidence is limited (because it is difficult to collect), there is enough to argue that Canadians tend to be more supportive of major social policy spending areas, namely health insurance, pensions, and family allowances (Guest 1988;

Lightman 1991; O'Connor 1989). The reasons for this support are the subject of much debate.

In contrast, the political climate in the United States has been more hostile to activist government. The conservative agenda—deregulation, privatization, cuts in social programs, opposition to taxes, overt and subtle appeals to racism—has not only dominated the public debate, as it has in many countries, including Canada, but has effectively influenced policy making. Much of the American public is convinced that government in general, and government housing programs in particular, do not work. To the broad public, government housing programs often mean public and subsidized private housing (although most Americans do not know the difference), Section 8 vouchers, and shelters for the homeless. Public housing is often used as a metaphor for the failure of activist government (Atlas and Dreier 1992). The HUD scandal during the Reagan administration contributed to this skepticism. Most people believe that low-income housing programs reward some combination of government bureaucrats, politically connected developers, and people who engage in antisocial or self-destructive behavior.

The Canadian experience demonstrates that it takes time to build the capacity of the nonprofit sector. The U.S. experience demonstrates that there is a great deal of community-based talent ready and willing to provide nonprofit housing if there is a reliable and adequate source of funding. There are no quick fixes. Community-based nonprofit housing development cannot emerge and mature if housing policies and programs frequently change. Such change makes it impossible to build the staffing and organizational infrastructure that the nonprofit sector needs in order to become a real player in the housing and community development business. Canada has spent almost two decades developing and investing in a community-based nonprofit housing capacity that has (1) program delivery mechanisms that work reasonably well; (2) dependable, although recently declining, funding; and (3) increasingly experienced and sophisticated nonprofit developers and managers. In the United States, where arrangements have focused much more heavily on private-sector provision, it will take at least a decade to move the nonprofit community-based housing sector from the margins to the mainstream. But the Canadian experience shows that the incubation process pays off in the long run.

The U.S. federal government, as well as foundations and state and local governments, can and must participate in expanding

the capacity of the nonprofit housing sector. Perhaps the major irony of the past decade has been the philanthropic community's increasing operating support for nonprofit developers, while the federal government has slashed project-based resources for housing development and rehabilitation. Many nonprofit organizations now have the organizational capacity to undertake development projects, but the subsidy resources are not available.

The current capacity of the nonprofit housing sector is very uneven across the United States. Perhaps a dozen cities have a critical mass of community development organizations in major neighborhoods; intermediaries to provide technical training and support; and a sympathetic support system among foundations, business, lenders, and local and state governments. These key components must be strengthened where they currently exist and established where they do not exist (Clay 1990). The goal should be to have in place a strong nonprofit development system in 50 to 100 cities, a system that enables the typical nonprofit organization to undertake the construction or rehabilitation of at least 50 to 100 units annually by the end of this century. In Canada, every major urban area and many rural areas have nonprofit housing development and housing management organizations—a network of community-based housing know-how that has evolved, with government assistance, during the past two decades.

Research on and evaluation of Canadian nonprofit housing programs must be completed and additional research must be conducted on the potential for transferring specific components of Canadian social housing policy to the United States. In addition to demonstrating the benefits of consistent, sustained national support for nonprofit housing, the Canadian experience ultimately may provide specific models for addressing the five serious dilemmas faced by many U.S. CDCs: small size, staffing and training, lack of comprehensive neighborhood planning, the need to place more emphasis on social services, and the need for greater community organizing and mobilizing.

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