

Public-Private Partnerships: Effective or Damaging to Low-Income Housing Management



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ABSTRACT

Public-private partnerships are an approach that has been used in provision of affordable housing in the United States, as well as in a number of other countries, since the 1980s. In these partnerships, private developers, non-profit agencies, and in some cases religious agencies receive some funds or support from the municipal, state, or federal government (or all three, in some cases) in order to build or renovate and manage affordable housing. This can be used both for rental housing and as a means of encouraging low-income home ownership. This is also an approach that has been used in a number of other countries. However, the effectiveness of public-private partnerships in the management of affordable housing is not a matter of uncontroversial agreement, and in fact has been challenged by a number of different research studies. By focusing research on a single city that has used public-private partnerships in managing affordable housing,

the research proposed will attempt to identify specific issues within the public-private partnership and gauge its effectiveness in this city.

Affordable Housing and Public-Private Partnerships: Effective or Damaging to Low-Income Housing Management?

According to the Haryana Urban Development Authority (HUDA), affordable housing is one of the most widespread social and economic problems in the State. HUDA's definition of housing affordability caps the cost of housing (including either rent or mortgage plus associated taxes) at 30 percent of the family's annual income (HUDA, 2010). Above this level, according to HUDA, "Families... are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care (HUDA, 2010)." As of March 2010, there are an estimated 12 million families paying more than 50% of annual income for housing (including both renters and homeowners); at this level, individuals are highly strained and will suffer even greater loss of economic flexibility (HUDA, 2010). However, more alarming is the fact that lack of affordable housing has a direct impact on the lowest socioeconomic classes in the country. According to HUDA, "a family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the State (HUDA, 2010)." That is, without support to reduce fair-market rents to affordable levels, it would not be feasible for individuals such as single mothers and those caring for a disabled spouse to provide housing. HUDA, as well as state agencies, provides funds to state and municipal housing authorities to support low and moderate income individuals in gaining access to housing, as well as providing funds directly in some cases (HUDA, 2010). This provides a valuable economic social support for low-income individuals and families.

The management of affordable housing by municipal housing authorities is performed in a variety of ways. However, one of the common approaches that has emerged over the past three decades is the use of the public-private partnership (Li & Akintoye, 2003). The public-private partnership emerged from the move toward privatization of public services during the 1980s as part of a trend

toward deregulation and government devolution (Li & Akintoye, 2003). It is part of a continuum of government devolvement in the provision of social services, which have ranged from complete divestment or privatization of state services and state-owned enterprises to the limited use of such facilities as private finance in government (Li & Akintoye, 2003). The public-private partnership is wide-ranging and has been applied to a number of different situations. For example, city officials may offer financial backing and support, municipal land, or tax incentives for private developers to develop public services (Li & Akintoye, 2003). In some cases, this has even extended to using the city's powers of eminent domain in order to take over lands for private development (Li & Akintoye, 2003). The use of public-private partnership in affordable housing has emerged both in the construction of new affordable housing (including both affordable housing neighborhoods and the inclusion of a number of affordable units in market-rate developments) and in the management of existing developments (Li & Akintoye, 2003). This research provides an overview of the known state of the public-private partnership in affordable housing, as well as providing a preliminary research method for examining the issue in a single municipal housing authority.

LITERATURE REVIEW

The public-private partnership can be formally defined as:

A contractual relationship where a private party takes responsibility for all or part of a government's (departments) functions... a contractual arrangement between a public sector agency and a private sector concern, whereby resources and risks are shared for the purposes of delivering a public service or for developing public infrastructure. (Hardcastle & Boothroyd, 2003, p. 31).

This definition encompasses the majority of the concepts involved in the public private partnership.

Public-private partnerships are seen in a wide variety of settings and in heterogeneous forms that challenge the traditional theories of governance (Austin & McCaffrey, 2002). In particular, they represent a strong expansion of regime theory, which attempts to explain how governments enact their civil and political goals (Austin & McCaffrey, 2002). The structure of affordable housing, its regulation, and the approaches to private involvement in its development vary widely, even to the municipal level (Salsich, 1999). This is in part the result of local and municipal laws regarding affordable housing, but is also the result of a deliberate effort to reduce centralized federal involvement in the process of social services provision in most areas, including that of affordable housing (Salsich, 1999). This means that affordable housing, or the use of public-private partnerships in affordable housing, cannot be considered to be a single discussion across the US, but must be considered on the local basis (Salsich, 1999). Public-private development is largely focused on the urban regions of the US, due to the high density of affordable housing and increased requirement for other infrastructure services (Sagalyn, 2007).

The goal of affordable housing is driven by what Nestor and Malloy (2009) describe as a pluralist housing ethic, which directs policy and social discussion regarding the issue of housing. The pluralist housing ethic encompasses five different concepts of the house, each of which have different implications for housing policy. These include “(1) Housing as an economic good; (2) Housing as home; (3) housing as a human right; (4) housing as providing social order; and (5) housing as one land use in a functioning system (Davidson & Malloy, 2009, p. 13).” These varying ethics have different implications for the public-private partnership; for example, while housing as an economic good demands economic efficiency, housing as a human right requires a specific level of involvement of quality and safety. Thus, these ethics drive the conversation between public and private developers. However, there are also conflicting imperatives between developer, public contractor, and those that will actually live in the affordable housing that mean that the different concepts of housing are very important for determining the overall value of the affordable housing unit. The use of public-private partnerships, and particularly the use of nonprofit agencies as intermediaries for development, was driven alongside welfare reform, which

increased the role of nonprofits and decreased the role of the federal government in service provision (Austin M. , 2003). This further devolution was the result of the deregulation craze of the 1980s and 1990s, in which government involvement in almost every area of the social network was reduced or eliminated (Austin M. , 2003). However, it did not necessarily have positive results, as many agencies had problems developing services and providing supports within the neighborhood scope intended (Austin M. , 2003).

One of the first levels of public-private partnership was the development of community development corporations (CDCs), non-profit agencies that were intended to support the needs of the community for affordable housing (among other community economic and social concerns) (Keyes, Schwartz, Vidal, & Bratt, 1996). The CDC model came into being in the 1980s, after the federal government cut direct subsidies of the social housing model for large cities (Keyes, Schwartz, Vidal, & Bratt, 1996). Rather than continuing direct support of the public housing in cities, the government switched to block grants for states and municipalities to manage their own affordable housing; during the 1990s, it was even considered that the federal government may soon stop supporting affordable housing at all, even for those in the most need such as the elderly and disabled (Keyes, Schwartz, Vidal, & Bratt, 1996). In order to protect the interest of the communities, CDCs rose as a means of continuing to manage and develop affordable housing in the face of potential withdrawal of federal aid (Keyes, Schwartz, Vidal, & Bratt, 1996). These agencies sought out funds from a number of areas in order to manage and develop affordable housing, and were (and continue to be in many cases) highly effective in this management role (Keyes, Schwartz, Vidal, & Bratt, 1996).

Federal support for private sector development of affordable housing began in 1977 with the initiation of the UDAG program, which was intended to promote private development and based assessment of development on “practical tests of market feasibility and explicit ratios of public/private investment leverage (Sagalyn, 2007, pp. 9-10)” rather than city planning or social justice concerns. The US emergence of public-private partnerships began on the East Coast during

the 1970s and 1980s, as a response to civic challenges including financial crises and economic problems (Austin & McCaffrey, 2002). The first business leadership coalitions, for example, emerged in New York, Boston, Detroit, and Cincinnati following significant stress in the cities, including race riots, bankruptcy, and financial distress (Austin & McCaffrey, 2002). One of the earliest housing authorities to begin the use of public-private partnerships is the New York housing authority, which began to explore the potential for supplementation of public housing with private initiatives as early as 1981 (Wylde, 1999). The New York City Housing Partnership, seeded with a \$30 million grant from the federal government, resulted in over \$1 billion in increased affordable housing (Wylde, 1999). The city provided funds, and private developers essentially planned and developed projects on their own, including planning revenue, development, and construction (Wylde, 1999). This program was seen as a way to reduce the higher cost centralized administration of public housing in New York City with a cost-saving approach that leveraged the capabilities of private industry and allowed for a higher level of control over the city's affordable housing stock (Wylde, 1999). By a decade following the inception of the program, the majority of New York's affordable housing was structured as public-private partnerships, and according to Wylde (1999), there were many more units available at a lower real rate than during the 1970s. Thus, up to that point the public-private partnership was considered to be a highly effective initiative in New York.

Not all public-private partnership efforts at affordable housing have been directed toward the city; instead some efforts have attempted to increase affordable housing in the suburbs (Stockman, 1992). However, these attempts have commonly been foiled by exclusionary zoning, in which local zoning laws are structured in such a way as to prevent building affordable housing within the town (Stockman, 1992). One such attempt was the Massachusetts Low and Moderate Income Housing Act, which was intended to address this exclusionary zoning (Stockman, 1992). Public-private partnerships were key in the success of this act, which allowed communities to provide units toward a low-income housing quota by negotiating with private developers to specify some number of their units as dedicated low-income housing (Stockman, 1992). These units, which

were offered at subsidized rates for low-income renters or home buyers, served the purpose of increasing penetration of affordable housing into the suburbs without leading to significant resistance from towns (Stockman, 1992).

Other programs have been designed as a means of eliminating failing affordable housing stock. The HUDA HOPE VI program was intended to support the development of mixed-income distressed or nonfunctional (Popkin, Cunningham, Brown, Gustafson, & Turner, 2004). This program, which focused on private development of affordable housing, was implemented in 1992 (Popkin et al, 2004). The assessment of HOPE VI is difficult due to the varied nature of the environments it has operated in and its actions; however, Popkin et al (2004) observed that the residents of affordable housing units have not always benefited, sometimes being displaced from established neighborhoods, facing unavailability of replacement housing on demolition of existing housing stock, or not being able to participate in the planning process (Popkin et al, 2004).

The real estate developer is not the only private partner that may participate in public-private partnerships, although it may be the most common. For example, a growing number of university-community partnerships have been developed in recent years in order to provide affordable housing in the area of the university (Wiewel, Gaffikin, & Morrissey, 2000). These partnerships use university resources to provide development for the surrounding area, both for their own workers and for community residents (Wiewel, Gaffikin, & Morrissey, 2000)

Research has indicated that the benefits of the public-private development of affordable housing are often dramatically overstated, and that many of the residents of these housing units (including mixed-income units, including designated units in market-rate developments) (Fraser & Kick, 2007). Evidence suggests that this underperformance results from lack of capacity and goal consonance between private developers, nonprofits, and government agencies involved in the development process; without these elements, residents of affordable housing units do not benefit, although other stakeholders often do (Fraser & Kick, 2007). The use of private developers for building affordable housing is not always successful in terms of ensuring efficiency and

management effectiveness, either. One case from India found that some developers simply stopped construction after receiving funds, constructed poor-quality units, or did not end up offering the units funded by public funds to the poor as intended (Mukhija, 2004). The issue of regulation and red tape can also slow production of affordable housing in some areas, reducing the availability in the long term to low-income residents (Sengupta, 2006). Although the evidence for these studies comes from India (where the public-private partnership model is also in active use for affordable housing development), some similar problems have been observed in the US as well (Hardcastle & Boothroyd, 2003). Recent evidence from England suggests that the public-private partnership in management of public (or social) housing may actually be detrimental to the end goal of providing public housing (Pawson, 2006). Problems such as creeping rental rates, deteriorating housing stock that is not maintained, and other such problems have reduced the utility of the public-private partnership, and in many cases the assumed flexibility and efficiency of the private market has been shown to non-existent (Pawson, 2006). Furthermore, there are problems in some periods with finding developers to provide the private partnership component, particularly in conditions that lead them to believe they will not be able to recoup costs (Pawson, 2006). Thus, the development and management advantages of the private developer cannot be assumed.

One issue that must be considered is the risk involved in the partnership for both the public and private entity, each of which could be challenged by lack of adherence to the contractual arrangement (Hardcastle & Boothroyd, 2003). Some of the risks faced by the private partner include inability to complete the development, lack of support from the public partner, and insufficient revenues from the project (Hardcastle & Boothroyd, 2003). The public partner faces risks like the private partner not completing the project, increases in required funding due to private partner inefficiency, and the potential for fraud or malfeasance on the part of the private partner (Hardcastle & Boothroyd, 2003). There is also a conflict stemming from the involvement of a private party driven by the profit motive – the conflict between the profit maximization motive and the requirement for specific services for the beneficiaries (Hardcastle & Boothroyd,

2003). For example, in an affordable housing development, the developer may reduce the quality of materials in order to increase cost.

Research in the US has indicated that public-private partnerships were not the miracle growth makers that were expected in the 1990s (Krumholz, 1999). Instead, despite constant support of a large number of such projects (including not only affordable housing, but also stadiums, markets, and other public infrastructure provisions), the unemployment and poverty continued to increase in some cities (Krumholz, 1999). One of the main problems with public-private development, both in theory and in practice, is that there is an overarching focus on the needs of the initial parties (the government and private developers) and less focus on the needs of the end users of the housing or other services that are being provided (Sagalyn, 2007).

According to Krumholz (1999), the cities that experienced inadequate outcomes from their public-private partnerships were also those that had a high inequity between social redistribution and profit – in other words, where development was an issue of real estate profits rather than job creation (Krumholz, 1999). By realignment of public-private partnerships toward community-based practices, redistribution of benefits was seen to improve the outcomes of these partnerships (Krumholz, 1999). The goals of public-private development may often come into conflict with the goals of appropriate city planning, particularly in cases where long-term development of an area is eschewed in exchange for rapid, inexpensive development by private developers (Godschalk, 2004). This conflict is indicative of the lack of focus on the needs of the end users, as noted by Sagalyn (2007); while the needs of the city for immediate affordable housing and the developer's profit motive are considered, there is little attention paid to the needs of the residents for livable and sustainable communities (Godschalk, 2004). This, like the destructive urban renewal policies of the 1950s and 1960s, can lead to city developments that are not sustainable in the long term (Godschalk, 2004).

RESEARCH APPROACH

The research will be conducted in the housing authorities and associated private associations of a major municipal housing authority. The three chosen cities include Chicago, New York, and Boston, as these cities have well established housing authorities as well as a high use of public-private partnerships. A focus on cities was chosen, rather than suburbs, small towns, or rural areas, because of the density of affordable housing and the provision of centralized municipal housing services. Participants will be selected by directly contacting them using contact information available from the housing authority Web site or other contact information.

SURVEY APPROACH

Ten questions have been identified that will serve as questions for a survey of the housing authorities in the cities selected. The survey questions that were selected were:

1. What percentage of city affordable housing is managed today as a public-private initiative or partnership?
2. What was the initial reason for using a public-private partnership approach for the affordable housing program?
3. What types of public-private partnerships are used? What organizations are involved in these public-private partnerships?
4. Is there a specific type of public-private partnership that dominates affordable housing in your municipality? (For example, religious partnerships, non-profits, private development?)
5. How effective is the public-private partnership for affordable housing in your city? How is this effectiveness measured and managed?
6. Are there differences in effectiveness between different types of public-private partnerships?

7. Have there been any significant problems in public-private partnerships? What was the outcome?
8. Are there any persistent problems in public-private partnerships that have been identified? How have they been addressed?
9. Have there been any legal problems with public-private partnerships?
10. Is there any other information regarding public-private partnerships that you think is important?

These survey questions are intended to provide information for a qualitative survey of affordable housing and the use of public-private partnerships. It can be distributed to individuals at a range of levels in the organization, which will allow for the development of a range of views. The sampling method that will be used for the study is a purposive selection method, in which the participants are selected according to their suitability for participation in the study (as defined by specific criteria) (Creswell, 2009). This will allow for the researcher to most effectively target those that would know about the information selected. Criteria that will be used to select participants for the questionnaire will include: at least five years experience in the public housing sector, combined with at least three years experience in the specific housing authority that is targeted for research; and direct involvement in the public-private partnership management of the organization. Participants will be selected in a variety of different job categories and areas, including legal, management, administration, direct involvement (for example case workers, maintenance workers, and others), and developers or other representatives of private organizations. This will provide for the most comprehensive view of the issues involved in the public-private partnership from the perspective of both the housing authority and the developers or other agencies that work with them. In a quantitative study, the use of a purposive sampling method would not be considered to be appropriate, because of the requirement to have generalizable results, which depend on random or probabilistic sampling across the population (Creswell, 2009). However, in the case of qualitative research, the use of purposive sampling is often used, and may even be highly

advantageous, because it allows the researcher to directly pinpoint the information needed and seek it out from those that are likely to have it (Creswell, 2009). Because the information required is not general knowledge, it is necessary to select participants based on their ability to provide a depth of information regarding this area of research. Thus, this is an approach that can be justified considering the research topic and method.

INTERVIEW APPROACH

The interview process will consist of interviewing one or two long-term, high-level employees of the housing authority selected who has been involved in setting and administering the public-private partnership model for affordable housing. This interview will be intended as a semi-guided interview that will provide an in-depth analysis of the origins and effectiveness of the public-private partnership model in the organization. These individuals will be purposively selected by reviewing the history of the housing authority and determining which individuals have been most instrumental in establishing the public-private model. They will then be contacted directly and asked to participate in a one-hour interview regarding the housing authority and its choice of a public-private partnership model. It is anticipated that these individuals may be difficult to gain access to, as they may have retired (which will not preclude interviewing them, but may make them difficult to find) or may not want to talk to the researcher. This is why the researcher has identified three possible housing authorities to conduct the research in. The researcher will also select up to six potential interview candidates in order to make sure that there may be one or two candidates that will be willing to participate in the research. If one individual is selected but a second cannot be found, or if one candidate proves to be unsuitable or cannot provide adequate information, the researcher may use a snowball technique in order to identify one or more further potential candidates for interviews (Creswell, 2009). The guidance questions that have been established for the interviews are:

1. What is the history of the public-private partnership in [subject city]'s affordable housing program?

2. In what ways have public-private partnerships succeeded in City's affordable housing program?
In what ways have they failed?
3. What changes do you see in the next five to ten years in City's use of public private partnerships in its provision of affordable housing?

DATA ANALYSIS APPROACH

The research approach that has been chosen is strongly qualitative, an approach that was chosen given the limitations of the study (including the small number of participants and the complexity of the information desired). The suggested data analysis approach is the narrative analysis technique, in which the survey and interview data will be used to construct a narrative of the positive and negative features associated with the history, current state, and future of the public-private partnership in the city chosen. This narrative approach will first use open coding in order to identify the response categories associated with the questions in the survey (Creswell, 2009). This approach will help to identify more or less common themes in the responses; focusing on the meaning of specific phrases, by collapsing individual wording into a single meaning relationship, will allow for identification of themes and meaningful ideas that are repeated through the surveys. This can then be further expanded by comparison with the outcomes of the interviews, which will be with individuals that have extensive knowledge regarding the historical and future practice of public-private partnerships. Feedback from both the survey and interviews can then be combined into a historical account and analysis of public-private partnerships in the city and a preliminary assessment of their effectiveness. This should be supported by other materials, including secondary research, government reports, and if necessary internal documents, that also reflect the historical process and the effectiveness of the public-private partnership in this area. The outcome of the analysis process should be a full historical narrative regarding the use of public-private partnerships, including motivations for the programs, scope, effectiveness, and likelihood for continuance of the program.

CONCLUSION

This paper has presented an approach that will be used to examine the problem of public-private partnerships in a single municipal area. The literature review demonstrated that public-private partnerships for management of affordable housing in the urban area originated in the 1980s and 1990s, following the development of a small-government approach that attempted to deregulate or devolve as many services as possible, and that it has continued over time. The justification for the public-private partnership in affordable housing is that the private sector is considerably more efficient at management than the public sector; by providing public funding and a mandate to the private industry for development of affordable housing, it is possible to provide a higher level of affordable housing for a lower cost. However, in practice this has not been seen to be as effective as it is in theory. Research has indicated that the public-private partnerships are prone to a considerable number of potential problems that reduce the effectiveness of the public-private partnership for the affordable housing industry. This paper also proposed preliminary interview and survey questions that can be used to collect information about public-private partnerships in the affordable housing operations of a given urban region or municipality. Although this research could be conducted in any municipality that has used public-private partnerships, the selected municipalities are Chicago, New York and Boston. These three cities were some of the earliest adopters of public-private partnerships, as well as having some of the highest levels of affordable housing stock in the country. However, only one city is required for the study, which allows for flexibility in conducting the study if there was no way to gain access to the housing authority or if there were no suitable people in the housing authority with the appropriate historical knowledge to provide the insights required.

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