International Housing Coalition

IHC

Housing for All

Affordable Housing in the United States --- Some Optimistic Approaches

A PAPER COLLABORATIVELY PREPARED UNDER THE AUSPICES OF
THE NATIONAL ASSOCIATION OF REALTORS®,
THE ANNIE E. CASEY FOUNDATION,
THE COUNSELORS OF REAL ESTATE, AND
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June 12, 2006

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This study was prepared as part of a series of studies organized by the International Housing Coalition (IHC) for presentation at the World Urban Forum III to be held June 19-23, 2006 in Vancouver, Canada. It is the joint intention of the National Association of REALTORS®, the Annie E. Casey Foundation, the Counselors of Real Estate, and Stateway Associates LLC that the paper contribute ideas and review the results of experience to assist in the search for solutions to the problems of housing low-income families and slum dwellers around the world. All of the named organizations subscribe to the goal of "Housing for All" as an essential element to ending poverty throughout the world.

Affordable Housing in the United States --- Some Optimistic Approaches

By Gordon Davis, Jaime Bordenave, Roger Williams, Richard A. Hanson, and Richard Shields
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INTRODUCTION

Like most of the world's nations, the United States has a housing affordability problem. The dynamics of the problem are not significantly different from other countries, but attempts in the US to cope with it may have relevance elsewhere, even though they have been influenced by unique elements of American culture and the peculiarities of the US federal system of government.

The magnitude of the problem in the United States is substantial, its causes are complex, and efforts to combat it are widespread, whereas the objectives of this paper are relatively modest. After first describing the problem, this paper will highlight some of the more important federal policy initiatives[1] intended primarily to address the urban aspects of the problem.[2] As will be affirmed below, many of these initiatives are quite successful,[3] and the more successful are those that leverage the private sector. To solve the problem at scale will require major participation by the private sector, working in tandem and in partnership with government. For this reason, following the discussion of federal programs there are two relatively diverse illustrations of how private sector involvement can be useful.

The first is a brief account of the efforts of the National Association of REALTORS® (NAR) to energize and activate its more than 1,500 state and local real estate boards and its more than 1.2 million members, who are all private sector players, in support of affordable housing. While finance, zoning, maintenance issues and other issues are major ingredients of the problem, one must not lose sight of this simple fact: much of the affordability crisis in the US stems from ignorance and indifference of the public, private enterprise and public officials in the locales where the problem exists. Information about the problem must be disseminated if the many structural problems that cause it are to be mitigated. As a public service, NAR has undertaken to be a conduit for communicating information, and --- through its members acting as volunteers ---

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[1] It is noted below that the policies and programs initiated by the fifty states and the multitude of cities, counties and other municipalities are too numerous even to catalog in a short paper.

[2] There is no doubt that housing affordability is a problem that cuts across both the urban and rural landscapes. The limit on this paper's focus to urban dimensions is an attempt to achieve some small degree of manageability.

[3] This is hardly to suggest, however, that they cannot be improved upon. In 2002, "Meeting Our Nation's Housing Challenges," the report of the Bipartisan Millennial Housing Commission (MHC), was issued. The MHC was created by Congress in December, 2000 to examine, analyze and explore (1) the importance of housing, particularly affordable housing, to US infrastructure; (2) ways to increase the private sector's role in providing affordable housing; and (3) ways to improve existing programs of the US Department of Housing and Urban Development (HUD) so as to provide better housing opportunities.

an advocate for solutions in the afflicted communities. Such activity is an important example of how the private sector can, and does, promote affordable housing.

The second illustration actually consists of two examples of complex urban redevelopment projects --- one in East Baltimore, the other in Chicago --- that will transform major, blighted urban environments into successful mixed-income communities. Affordable housing is but one concern of the developers of these projects. But integrating an affordable housing component in an undertaking of grander ambitions is a valuable strategy for targeting the problem.

It will be noted that the East Baltimore and Chicago projects only avail themselves to a very limited extent of the federal affordable housing programs touched upon in this paper. They were chosen for precisely that reason. Whereas most of the federal policies and programs outlined in this paper (and many state and local policies and programs not alluded to here) have achieved notable successes, and it would be possible to identify concrete examples of successful projects utilizing each, such programs are by no means the exclusive route to success. No two projects that address affordable housing are identical. The projects described here, though quite dissimilar, have one common characteristic: they exemplify the effectiveness of the public and private sectors working together creatively to achieve multiple urban redevelopment objectives, one of which is affordable housing.

This paper of self-consciously limited scope barely scratches the surface of the affordable housing problem and solutions in the United States. Many for-profit, not-for-profit and governmental organizations in the US are pursuing a broad array of strategies, some out of self-interest, others as a public service. Various state housing and housing finance agencies are known for their innovative programs. The remarkable activities of this legion of programs, or even a significant fraction, could not possibly be recounted here. The selection of materials in this paper is eclectic and opportunistic. If the mix merely affords an entry point to a more wide-ranging discussion of the problem, the policy options, and the practical ways in which the private sector can be engaged, the authors' objective will have been achieved.

THE HOUSING AFFORDABILITY PROBLEM IN GENERAL, AND IN THE US

Housing affordability is an economic and social problem that affects rich and poor countries alike. No respecter of nationalities or cultures, it arises whenever fewer units of housing are available for sale or rent --- for whatever reasons --- in a given price or rent range than the number of households looking to buy or rent that can afford housing at the given price or rent. In fact, housing affordability problems tend to migrate down the price/rent scale. Regardless of the price range where a housing shortage first arises, buyers in that price range will tend to bid up less expensive units, the end result being to drive the shortage to the lower end of the housing price range. The rental market functions the same way: a shortage in supply of rental units in any rent range will migrate to the lower end. And, as alluded to above, as between purchases and rentals, rising purchase prices tend to nudge rents higher, and vice versa.

The factors influencing the availability of affordable housing might be viewed as falling into two categories: market factors and individual household factors. Obvious market factors include the stock of housing available in any locale for purchase, prevailing purchase prices, the availability and terms of financing, the stock of housing in the locale available for rent, and prevailing rents. Less obvious market factors, varying greatly by locale, might include the availability of land, zoning, subdivision and occupancy laws, title/tenure issues, patterns of racial/ethnic discrimination, etc. Individual household variables include household size, income, credit standing and subjective interpretations of household needs.

It would be a mistake to treat all these factors as independent variables, since, for example, prices and rents will vary as a function of supply and demand; owned housing and rental stocks will vary as a function of zoning laws; rents are driven to some degree by purchase prices and vice versa; prices will depend to some extent upon household incomes and available financing; and financing availability will depend upon marketability of title, among other considerations. Moreover, since locales are rarely isolated but rather, shade into one another geographically, market factors are usually dependent upon proximity and location issues.

The United States Department of Housing and Urban Development has succinctly articulated the housing affordability problem in the United States:

> The generally accepted definition of affordability is for a household to pay no more than 30 percent of its annual income on housing. Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care. … The lack of affordable housing is a significant hardship for low-income households preventing them from meeting their other basic needs, such as nutrition and healthcare, or saving for their future and that of their families.[4]

Home ownership is an important objective for most US families, a cultural norm that has been supported and promoted for decades, by the US government through policies of all recent administrations, the Congress, and by virtually all state governments.   Studies in the US have consistently shown that owning one's own home is a major factor in the accumulation of personal wealth, which is important to the security of any family. For example, NAR reported in March of 2006 that "The median net worth of a renter was $4,000 in 2004 (latest data available) compared with $184,400 for homeowners."[5] Benefits are not limited to homeowners' financial rewards. Again, according to research performed by NAR, "Stable housing boosts the educational performance of children, induces higher participation in civic and volunteering activity, improves health care outcomes, lowers crime rates and lessens welfare dependency."[6]

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[4] **http://www.hud.gov/offices/cpd/affordablehousing/** (last visited May 25, 2006)

[5] **http://www.realtor.org/REIoutlook.nsf/files/marinsigshtsfinal.pdf/$FILE/marinsigshtsfinal.pdf** (last visited May 27, 2006) quoting "Social Benefits of Home Ownership and Stable Housing," National Association of Realtors Research Division, January, 2006, **http://www.realtor.org/Research.nsf/files/05%20Social%20Benefits%20of-%20Stable%20Housing.pdf/$FILE/05%20Social%20Benefits%20of%20Stable%20Housing.pdf** (last visited May 27, 2006)

[6] "Social Benefits of Home Ownership and Stable Housing," op. cit. supra, at p. 15.

Ownership is an elusive goal, however, for many in the United States.[7] Many local markets in the US have seen strong housing price and rent appreciation in recent years (although rents are said to have lagged prices in a number of hot markets). While 69% of US households --- a total of more than 73 million households --- now own their own homes, and though the value of America's homes has increased substantially over the last decade, adding value for those families that are owners, many Americans have missed out on this opportunity. Of course, not everyone is a candidate for ownership; some people actually prefer renting, even if they can own. But for a large percentage of the American population, housing is simply unaffordable, whether to buy or to rent.

The U.S. Census Bureau's most recent American Housing Survey shows that nearly a third of Americans spend 30% or more of their incomes on housing, and 13% actually spend 50% or more. Housing data from the US 2000 Census is an eye opener in terms of the percentage of income Americans are spending on housing. The situation is dire for many, whether owners or renters (units expressed in thousands).[8]

Monthly Housing Costs as Percent of Current Income	Total Occupied Units	Owner	Renter
Less than 5 percent	5 217	4 906	311
5 to 9 percent	12 267	11 131	1 136
10 to 14 percent	15 166	12 316	2 850
15 to 19 percent	14 879	10 913	3 966
20 to 24 percent	12 616	8 544	4 072
25 to 29 percent	9 555	5 932	3 623
30 to 34 percent	6 840	4 181	2 659
35 to 39 percent	4 758	2 728	2 030
40 to 49 percent	5 882	3 160	2 722
50 to 59 percent	3 595	1 864	1 731
60 to 69 percent	2 228	1 057	1 171
70 to 99 percent	3 098	1 443	1 655
100 percent or more	5 068	2 533	2 536
Zero or negative income	2 889	1 555	1 334
No cash rent	2 201	---	2 201
Total	106 261	72 265	33 996

[7] For many, at least in the past, demographics equal destiny. Home ownership rates among minorities in the US lag significantly behind those of whites, attributable in part to differences in economic circumstances and the age composition of minority populations, which tend to be younger. Minorities have materially increased their home ownership rates in recent years. "But even with these gains, the homeownership rate among minorities still lags below that of whites. In 2003, less than half of African-American and Hispanic households owned their homes. In contrast, over 75 percent of non-Hispanic whites were homeowners." "America's Home Forecast: The Next Decade for Housing and Mortgage Finance," The Homeownership Alliance (2004), at p. 28. **http://www.homeowner-shipalliance.com/studies/pdfs_2004/americas_home_forecast.pdf** (last visited May 27, 2006)

[8] The table is drawn from "American Housing Survey for the United States 2001," US Department of Commerce and US Department of Housing and Urban Development, Table 2-13, Selected Housing Costs, Occupied Units, at pp. 76-81 **http://www.census.gov/prod/2002pubs/h150-01.pdf** (last visited May 27, 2006)

The families spending more than 30% of income on housing described by HUD as "cost burdened" may be key members of our urban communities --- schoolteachers, fire fighters, nurses and police officers. Their incomes are often deemed insufficient to support conventional mortgages on homes in the neighborhoods where they work. And in too many of those communities, rental homes are priced beyond the means of these people as well.

These Americans have limited choices. More affordable housing is sometimes available for purchase in outlying towns or neighborhoods within commuting distance of employed family members' workplaces. But in some areas of the country this option is largely exhausted, leaving the rental market as the last resort for many households. And in some communities, even the rental option would be prohibitively expensive in the absence of public policies --- subsidies --- that lower the effective rental cost of adequate shelter. The truly low income households can find themselves in desperate straits without significant long term assistance.

The evident trends suggest that the problem is worsening rather than improving in the United States. Authoritative evidence of this was presented in 2002 in the Millennial Housing Commission's comprehensive report, which began with this alarming statement:

> At the opening of the new millennium, the nation faces a widening gap between the demand for affordable housing and the supply of it. The causes are varied— rising housing production costs in relation to family incomes, inadequate public subsidies, restrictive zoning practices, adoption of local regulations that discourage housing development, and loss of units from the supply of federally subsidized housing.[9]

In a recent lecture at Harvard's Joint Center for Housing Studies, Henry Cisneros, former Secretary of Housing and Urban Development, used market rental housing and crowding as two dimensions of the problem that graphically illustrate the affordability problem in the United States.

> Beyond governmentally-assisted rentals, one of the most important elements of supply in the Housing Continuum is market rental housing. Despite the tremendous expansion in the homeownership rate, there will always be a percentage of households who for very good reasons will not be able to own a home and must rent. In many metropolitan markets rental housing is scarce and expensive. A family with one full-time worker earning the minimum wage cannot afford the local fair market rent for a two-bedroom apartment in any major market in the nation today. Another manifestation of the housing squeeze is the increasing degree of crowding. The Census reports that "after almost a half-century of decline, crowding in American housing is on the rise." Census data show that 6.1 million households are classified as crowded, up 36% from 1990.
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> One of the major reasons for the unaffordability is that multifamily construction slowed so precipitously in the 1990s. Juxtaposed against dramatic population increases during the 1990s, the imbalance is a supply and demand driven formula for unaffordability. In the decade of the 1970s, about 5 million multifamily rental units were constructed; during the 1990s, less than half that figure – 2.2 million units of multifamily apartments – were constructed. The Joint Center estimates that the demand for units affordable to the bottom

[9] "Meeting our Nation's Housing Challenges," the Report of the Bipartisan Millennial Housing Commission Appointed by the Congress of the United States (May 2002) at p. 2.

> quintile of renters outstrips the available supply by 2 million units. In many metropolitan areas, the shortfall of affordable rental housing is a crisis. In the Pico-Union neighborhood of Los Angeles I have seen three families crowded into a few rooms; in Chicago I have seen a dozen workers sleeping on the floor of a living room; in Houston I have visited neighborhoods where landlords charge stiff rents for the use of garages as living spaces.

The context of the affordability problem in the US, of course, includes a multiplicity of federal policies and programs. In his lecture, Cisneros emphasized and endorsed many of the improvements to federal housing policies recommended in the Millennial Housing Commission's report, and added suggestions of his own. Both the Commission and Cisneros are generally satisfied that existing policies can be made more effective by promoting more robust private sector involvement. In the following section, the more salient federal policies are outlined.

US HOUSING POLICY PROMOTES AFFORDABLE RENTALS AS WELL AS AFFORDABLE HOUSING OWNERSHIP

Housing policy in the United States is a complicated mosaic of federal, state and local initiatives. This paper attempts to treat federal, but not state and local, initiatives. The state and local policy devices vary significantly from jurisdiction to jurisdiction. Their sheer number and diversity discourages any responsible attempt to briefly characterize them;[10] the only non-federal policy instrument touched on will be "inclusionary zoning."

For decades the federal government has been experimenting with policies that support both purchase and rental options for affordable housing. This section will concentrate on some of the more prominent federal policy interventions (excluding those that are primarily associated with the rural dimensions of affordable housing, such as those administered by the Farmers Home Administration, now known as Rural Development) as regards both renting and owning as paths to achieving US housing affordability.

RENTALS: PUBLIC HOUSING VS. PRIVATELY DEVELOPED AFFORDABLE HOUSING RENTALS

For many years, beginning in 1937, the primary US approach to affordable housing was to construct and rent public housing to qualifying low income households. Public housing was built by the government itself (or at least built by contractors for the government), paid for with public funds, owned by the government and managed by government housing authorities, usually organized at the county or city level. An income eligible household would be approved for occupancy of a residential unit, and could stay in the unit as long as the family met income criteria. Rent would be subsidized; the amount a qualifying household would be charged depended on its income and the number of family members; this rent figure typically was a fraction of the market value of the unit.

[10] For example, states often have their own low income housing tax credits, and programs arising out of federal initiatives, but with unique local characteristics. In addition, state laws create various types of legal structures relevant to affordable housing. Certain types of cooperative housing, governed by state law, are relevant to low income housing, such as limited equity cooperatives and leasing cooperatives. Mobile home parks and mutual housing associations are also creatures of state law. None of these items will be discussed further here.

Experience in the US with some public housing over the decades disclosed serious flaws in this approach. Because occupants had no ownership interests in their units and the common areas, they did not take care of them. Buildings deteriorated, elevators failed, windows were broken and not replaced, refuse accumulated, and dangerous conditions developed. Petty crime tended to proliferate. There were other problems: subsidized rent sometimes created an incentive for occupants to stay, and not look for better accommodations. At least to some extent, income criteria acted as a disincentive to find work or to strive for higher pay.

Public housing is by no measure an unqualified failure in the US. There are still over a million public housing units in service, owned and managed by about 3,000 state and local housing authorities around the country. But practically no new units are being built and the number in service is declining.

The condition of the public housing stock in the country reached a nadir in about 1990. In 1993, a federal program --- HOPE VI --- was enacted in response to recommendations from the National Commission on Severely Distressed Public Housing to address the fact that about 86,000 units of public housing (about 6% of the total) were severely distressed.

> The HOPE VI program was intended to fundamentally transform public housing by combining the physical revitalization of distressed public housing properties with community building and supportive services. HOPE VI funds covered capital costs to reconstruct replacement units, fund Section 8 vouchers, and improve management practices.[11]

The idea of HOPE VI is to deconcentrate poverty by helping low income families relocate to better neighborhoods, and to create thriving mixed income communities in lieu of the severely distressed public housing. This is accomplished by HOPE VI grants that enable the demolition of distressed public housing and its replacement by new mixed income construction, and that provide funds for new Section 8 vouchers to enable some tenants to find their own rent subsidized housing elsewhere.

> With the advent of HOPE VI, HUD deregulated public housing and promoted a more entrepreneurial, market-driven culture in public housing management. HUD streamlined and simplified the rules governing nearly every aspect of public housing management, eliminating dozens of handbooks and guidelines in the process. Further, in rewarding HOPE VI grants, HUD placed substantial emphasis on developing public/private partnerships among housing authorities, private-sector developers, and management firms. Housing authorities were encouraged to experiment with new forms of asset management approaches in which the bulk of on-site management was subcontracted to private firms.[12]

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[11] Popkin, et al, "A Decade of HOPE VI: Research Findings and Policy Challenges," The Urban Institute and The Brookings Institution (May 2004) at p. 13. **http://www.urban.org/UploadedPDF/411002_HOPE-VI.pdf** (last visited June 4, 2006).
[12] Id., at p. 16.

As the HOPE VI program evolved, the use of its grants to leverage other funds via other programs (such as the Low Income Housing Tax Credit discussed below) became an important objective. HOPE VI has certainly achieved some important successes over its twelve year history.

A discussion of the popular and successful "Section 8" rent voucher system --- introduced as an alternative to public housing --- requires a bit of backtracking. From the outset of the public housing era, there was much community opposition to the large, anonymous apartment complexes typically built by public housing authorities, with their tendencies to deteriorate and their associations with petty crime. And --- a major consideration --- over the years, public housing was found to be more expensive than other alternatives.

So in 1961 the US Congress added to the US Housing Act the so-called Leased Housing Program. This program was really the beginning of a shift of emphasis in US housing policy away from public housing and toward the private sector as the vehicle for producing and managing affordable housing. The program involved state or local housing authorities entering into leases with privately owned multi-family apartment buildings. The authorities would identify low income households to occupy the apartments, specify the amount of rent the occupants had to pay (based on family income), and pay the landlords the difference between fair market rent and the rent the occupants paid. Funding for the state or local housing authority came from the US Federal Government.

This system was found to work very well. It provided incentive for the private sector to build and maintain apartments and make them available to the very poor. In 1974 the Housing Act was further amended and the so-called Section 8 program came into existence. This program fixed the percentage of their income that low income households were required to pay for rent --- 30% --- and subsidized their rent by the difference between that figure and fair market rent. But under Section 8, by means of a voucher system, the eligible family found its own housing unit. In other words, virtually any vacant residential unit in the area became theoretically available as low income housing. This ingenious approach, managed at the local level --- usually by county or city housing authorities --- has been quite successful. Congress has raised and lowered the number of vouchers --- i.e. the number of housing units --- available through Section 8, but has preserved the program. At present, the nationwide total number of housing units supported through Section 8 is in excess of 2.1 million.

The 1974 legislation included sub-programs under Section 8 that subsidized new construction and substantial rehabilitation of affordable housing rental units. Special guarantees were available from another US government agency for financing the construction of these units. And in addition, there were special income tax credits and fast depreciation tax advantages for building new units and substantially rehabilitating old ones. Not all of these advantages were available together, but depending on a private developer's individual needs and his appetite for risk, there were a number of ways to entice him into the affordable rental housing game.

These sub-programs were quite successful at adding to the supply of affordable rental units, because of their capacity to tailor and adjust the developer's business risk of constructing the units. In 1983, the sub-programs were scaled back, but some funding continues to be available. And, as mentioned before, Section 8 low income rental subsidies have continued. In 2000, federal legislation was passed that allows housing authorities to allocate up to 20% of their tenant-based Section 8 vouchers for new projects. This so-called "project-basing" of existing vouchers did not add new Section 8 units; it allowed for conversion of portable vouchers to fixed-location projects. But it did add a dimension of flexibility to the program.

An interesting and rather specialized form of intervention related to Section 8 is the so-called Loan Management Set-Aside program. It makes it possible for the US Government to subsidize multifamily housing properties that have been built using Government guaranteed loans and, for one reason or another, are in financial trouble. The idea here is that the Government will give subsidy payments to properties that might otherwise go into bankruptcy on condition that the properties agree to accept low income families. If the Government is about to lose money anyway on its loan guarantee if the owner goes bankrupt, it can spend less than it stands to lose in the bankruptcy and expand the number of low income rental units at the same time.

It should be said that the Section 8 program and all of its various sub-programs and adaptations over its three-decade life have consistently reinforced one key conclusion: the private sector does a better job of meeting affordable housing needs than the government acting as builder and landlord. Harnessing the ingenuity of the private sector can produce remarkable results. The use of housing subsidies in a variety of forms to attract private sector players is a powerful means of supporting the important social goal of making adequate shelter available to renters who otherwise would be priced out of the market.

The federal program reputed to have been most successful in attracting private sector investors to affordable rental housing has been a tax subsidy known as the Low Income Housing Tax Credit (LIHTC) program. Established by the Tax Reform Act of 1986, the idea was to allow developers the use of federal income tax credits to leverage private equity capital for construction and rehabilitation of low income housing rental units.[13] It is estimated that these credits, which are allocated by state housing finance agencies, now provide an incentive for 40 to 50 percent of new, affordable, multifamily rental housing.[14] Tax credit supported rental housing also accounts for over one-fifth of total multifamily rental housing developed in the U.S.[15]

The LIHTC program provides a 10-year reduction in tax liability for owners of low-income rental housing. Generally, the units are rent restricted for 30 years, but in some cases this may be shortened to 15 years. Many states are now providing a competitive advantage to those applications that commit to maintaining affordable rents even beyond the 30-year period, which encourages the development and preservation of affordable low-income housing. There are both 9% credits and 4% credits. The owner entity sells the credits that have been allocated to the project to an investor, and discounts their value accordingly. In certain geographic areas, known

[13] This entire description of the LIHTC program is taken from a HUD research report by author Jaime Bordenave, President and CEO of The Communities Group. Mr. Bordenave's footnotes have been retained.
[14] See calculation of estimate by David A. Smith, founder of Recap Advisors, in his *Low-Income Housing Tax Credit Effectiveness and Efficiency, A Presentation of Issues*, footnote on page 9.
[15] *Updating the Low-Income Housing Tax Credit (LIHTC) Database Projects Placed in Service Through 2002*, by the Office of Economic Affairs, U.S. Department of Housing and Urban Development, Office of Policy Development and Research (Page 30, Exhibit 4-2). April, 2005.

as Qualified Census Tracts (QCT) or Difficult to Develop Areas (DDA), there is a 30% bonus on the credits. In the case of an acquisition of an existing property, only a 4% credit can be obtained for the value of the existing buildings.[16]

The computation of the credits and how much equity they generate for a given project is complex, and depends on many factors including those listed above, as well as others, such as which of the development costs are included in basis, caps set to limit the credits per unit or per project, and the market price of the credits. As a general indication, the program can provide equity for a project from as little as 10% of the total development cost, to 80% of the total development cost or even more.

In 2003 alone, State and City Housing Finance Agencies had available about $13.3 billion in tax credits for allocation. This *annual* amount is more than 2 times the *cumulative* amount that has been made available through the HOPE VI program since its inception 14 years ago for the revitalization of distressed public housing developments and their neighborhoods. Since 1987, 24,504 tax credit projects have been developed and placed in service, representing more than 1 million affordable housing units. By way of comparison, there are 3,040 public housing authorities that own and manage 16,834 public housing developments throughout the U.S., with 1.284 million low-rent units.[17]

The LIHTC program is a major resource for the development or rehabilitation of affordable housing nationwide, and is available for use by, and consistent with the mission of, public and Indian housing authorities. For new development, it is the single most important resource for affordable housing development, at over $13 billion annually. It is also an important tool for redevelopment of existing properties.

Enacted in 1990, the HOME Investment Partnerships Program, better known as the HOME Program, has provided a major resource for the development of affordable housing. All funds must be directed to assist families at or below 80% of median income. As a housing block grant, HOME funds may be used to develop rental housing, assist homebuyers through development of new units or through downpayment assistance, help existing homebuyers rehabilitate or retrofit their homes, and provide rental assistance to eligible tenants. HOME funds are provided to more than 600 state and local participating jurisdictions through an annual formula allocation; they, in turn, based on local needs, determine how the funds are to be used.[18]

As part of each year's allocation, a participating jurisdiction must provide a minimum of 15% of the funds for housing owned, developed or sponsored by neighborhood-based, community housing development organizations (CHDOs). In addition to bolstering nonprofit

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[16] For readers unfamiliar with the Low-Income Housing Tax Credit program, numerous resources are available, such as the *Low-Income Housing Tax Credit Handbook*, produced by Novogradac and Company (see **www.novoco.com/products/index.shtml**), or *Tax Credits for Low Income Housing: Opportunities for Developers, Non-profits and Communities under Expanded Tax Credit Provisions* (**www.taxcreditcoalition.org**). Also, see GAO report: *Public Housing: Low Income Housing Tax Credit as an Alternative Development Method* (July, 1993). **www.HUDUser.org** also provides a wealth of background reports on the *Low-Income Housing Tax Credit Program*.

[17] This number of authorities excludes housing authorities that only operate Section 8 programs.

[18] Description of HOME Program courtesy of Mary Kolesar, Director of the Office of Affordable Housing Programs, US Department of Housing and Urban Development.

capacity, HOME has allowed local governments flexibility in meeting the affordable housing needs in their communities. In 2003, the American Dream Downpayment Initiative was added to the HOME Program in an effort to bolster assistance to first-time homebuyers by providing funds primarily for downpayment and closing costs.

Finally, one must mention the Community Development Block Grant (CDBG) program. This program began in 1974, the same year as the Section 8 program. It currently provides grants to over 1,000 units of state and local governments for a multitude of community development purposes. Such purposes include housing acquisition and rehabilitation, direct homeowner assistance, making repairs on foreclosed housing units, and others. Funds may be applied as grants or loans, or may facilitate loan guarantees.[19]

The CDBG and the HOME programs, both of which combine support for rental as well as owned affordable housing, serve as an appropriate segue to federal programs designed exclusively to promote home ownership.

HOME PURCHASES

The US Federal government has a variety of programs that promote and encourage home ownership at all income levels. Many of its policies promoting ownership have had their principal impact at the entry level --- the promotion of first-home ownership. The prevailing wisdom has always been that once a family is on the "housing ladder" it is far easier to move up to larger, more comfortable homes.

The earliest, and one of the most influential, US policies regarding housing was the home loan guarantee program of the Federal Housing Administration. Created in 1934, FHA insures loans made by banks and other conventional lenders for the purchase of homes. An FHA loan guarantee allows a bank to lend up to 100% of the cost of the home. This means that many young couples, poor single parents, and others without a sizeable "down payment" and perhaps without a long credit history can become buyers who, without FHA, could not. The borrower pays a "mortgage insurance" fee as a part of his monthly payment on the loan which is remitted by the bank to FHA. FHA is entirely self-financed --- it pays for itself out of these "mortgage insurance" fees. And the buyer usually can drop the mortgage insurance at the end of five years, once the unpaid principal balance of the loan has been paid down by enough to assure that the bank is adequately protected by its mortgage on the property. FHA is said to be the largest mortgage insurer in the world, having insured more than 33 million mortgages since its inception.

A similar program has been managed since 1944 by the Veterans' Administration. This program guarantees home purchase loans for Americans that have served on active duty in the US military. Like the FHA program, the VA program makes it possible for someone without a down payment to purchase a home. The VA collects a one time fee from the veteran for its loan guarantee. One interesting dimension of the VA loan guarantee program is that it may be used more than once. If a veteran buys a home using the VA loan guarantee, sells the home and pays

[19] **http://www.hud.gov/offices/cpd/communitydevelopment/programs/** (last visited June 4, 2006).

off that loan, then he can reinstate the loan guarantee when he buys his next home. The VA has insured in excess of 15 million loans since program inception.

Of great importance to the US real estate market is an entity created by the US Congress in 1938. “Fannie Mae” (formerly the Federal National Mortgage Association, now known exclusively by its nickname) has improved the affordability of housing in the US by establishing a market for the purchase and sale of first mortgages, thereby increasing liquidity and accordingly, availability of home mortgage financing. Fannie Mae accomplished this task profitably, and in 1968, it was transformed into a "private corporation with a public purpose" by an act of Congress.

Here’s how Fannie Mae works: it buys loans secured by first mortgages on homes from the banks that have made those loans. Typically the banks that made the loans will continue to “service” the loans --- receive monthly payments, make sure that fire insurance is in effect on the property, see that land taxes are paid, etc. --- for which they are paid a service fee. Thus the banks receive income from the loans, but no longer bear the risk of their mortgage loans going into default. When Fannie Mae buys mortgage loans from the banks that initiated them, the banks can, and often do, initiate more mortgage loans with the proceeds of sale. Where does Fannie Mae’s funding to buy loans come from? Fannie Mae issues bonds, and pledges the loans it has purchased as collateral for the bonds. It issues and sells these bonds to investors. Fannie Mae have been a favorite fixed income investment of insurance companies and pension funds, as well as of private investors and foreign central banks because they are deemed virtually as secure as US Treasury bonds. As Fannie Mae recovers its cash investment in the mortgage loans that back the bonds, it can go back to the banks buy more mortgage loans.

Using this technique of “securitizing” home mortgage loans, Fannie Mae has greatly expanded the amounts of money that the banking system is willing to invest in mortgage loans, and Fannie Mae itself has amassed an investment portfolio worth one trillion dollars, of which 90% is represented by first mortgage loans on homes.

Possibly the most beloved policy promoting home ownership in the US is the mortgage interest tax deduction. A purchaser of a home who borrows his purchase money by means of a mortgage-secured loan may deduct the amount of the interest he pays on that loan from his income when calculating the annual tax he pays on his income to the Federal government. Similarly, the amount of property taxes the homeowners pay on their home is deductible from income when calculating Federal income tax.

Since 1997, homeowners in the US are exempt from capital gains taxes on the sale of their home (the exemption shelters a profit of $250,000 for a single homeowner, twice that for married homeowners). This is a major incentive to own rather than rent, given the recent rise in residential values in the US of historic proportions. Obviously, it is more important to taxpayers in top brackets than low income families. But it is of value at lower income levels as well.

These income tax provisions allow taxpayers who own their homes to save tens of billions of dollars per year in Federal taxes. Thus, repealing them would be expensive to US homeowners. The typical homeowner saves several thousand dollars per year in US income tax as a result of the interest and property tax deductions and arguably much more than that upon a sale as a result of the capital gains tax exemption. There exists a credible fear among policy makers that repeal of these provisions would make home ownership less financially attractive, leading to a reduction in the total number of homeowners in the country. About ten years ago, the National Association of Realtors© calculated that eliminating the interest deduction would likely cause the prices of homes across the country to fall by about 15 percent, wiping out $1.7 trillion of homeowners' equity.

So far the indications have been that the tax provisions favoring home ownership are here to stay. They are compatible with the Bush administration's concept of an "ownership society." And since 69% of American households own their own home and benefit from these provisions, repealing them could be politically tricky for the party in power.

INCLUSIONARY ZONING AND RELATED CONCEPTS

One innovative approach to affordable housing developed and applied in many state and local jurisdictions is "inclusionary zoning." This is a regulatory concept pursuant to which local zoning or subdivision authorities will require developers to include a certain number of housing units for low- and moderate-income households as a condition of their receiving approval to build large housing complexes. The concept has been controversial in the US. Some developers and their lawyers have argued that these legal requirements actually amount to a constitutionally prohibited "regulatory taking." A few economists have argued that the requirement is tantamount to a tax, and disproportionately burdens developers.

But most real estate lawyers doubt that such a requirement is a "taking," and the relevant lawmakers apparently consider it reasonable to require developers to participate in solving the affordable housing problem. Many developers rationalize their willing compliance with such a requirement as the price of doing business in a desirable market. Some even claim that they can realize a profit from the affordable units. Time will tell if this regulatory approach to affordable housing is beneficial, and if it will remain with us as a useful tool.

REALTORS® PROMOTING AFFORDABLE HOUSING

The National Association of REALTORS® (NAR) is America's professional association for real estate brokers and agents. Its membership exceeds 1.2 million professionals. For the last several years, NAR has been deeply engaged in affordable housing initiatives, largely at the instance of NAR's 2002 President, Martin Edwards. At his urging, NAR created the Housing Opportunity Program as an important institutional focus.

Involvement by the nation's largest professional association in such an issue as affordable housing which, at first blush, may seem somewhat incongruous, can be readily understood based upon NAR's close identification with home ownership and property rights and its long history of activism in public policy debates associated with home ownership and property rights.

According to a recent survey that NAR conducted, US families rank the costs and availability of housing as one of their top three concerns. Two-thirds of the respondents said they were concerned about the cost of housing in their communities. Seven out of ten want government to make affordable housing a higher priority, and two-thirds include affordable housing opportunities as a factor in their decisions about voting for a candidate.[20] NAR believes that its members are in a unique position to be the best advocates and educators for, and promoters of, real solutions to today's critical housing needs.[21]

The Housing Opportunity Program's vision is "REALTORS® creating housing opportunities for all." Its mission is "to position, educate and assist REALTORS® as leaders in creating housing opportunities." The Program encourages REALTORS® to educate, counsel and advise potential home buyers with marginal incomes about affordable housing --- including ways in which they can take advantage of federal, state and local programs to become home owners. It also promotes REALTOR® involvement in local advocacy for affordable housing, and has employed its formidable communications capability through conferences, publications, and other means, to promote affordable housing.[22]

A major impediment to solving the affordable housing problem in the US is a persistent prejudice that "those people" --- i.e. people who have problems financing a home or paying high rents --- are undesirable and should live somewhere else. This prejudice gives rise to a disinclination on the part of some Americans to support affordable housing developments in their neighborhoods, or to purchase homes in mixed income developments. The problem is often quite easy to overcome, once people understand that the "undesirables" are in fact their child's schoolteacher, the local firefighter, the dental hygienist, and others.

The NAR Housing Opportunity Program has participated in impressive research efforts and launched powerful outreach activities. It has created a number of educational tools, intended not only to educate NAR members --- REALTORS® --- but the public at large on the importance of coming to grips with the affordable housing problem.[23]

One excellent tool produced by the program is a booklet entitled "Blueprints for Success," that outlines the affordable housing problem and ways in which REALTORS® can get involved at the local level in forming affordable housing programs and partnerships. That document has been widely disseminated among the memberships of NAR's sixteen hundred state and local real estate boards. It is available to the public on the NAR web site.[24] A companion

20 For a more detailed review and analysis of the survey results, see http://www.realtor.org/realtor-org.nsf/pages/2004pulsesurvey?OpenDocument

21 One is put in mind of Alexis de Tocqueville's admiration, expressed in 1835, for the American tendency to form "associations" to tackle problems of common concern: "As soon as several of the inhabitants of the United States have taken up an opinion or a feeling which they wish to promote in the world, they look out for mutual assistance; and as soon as they have found one another out, they combine. From that moment they are no longer isolated men, but a power seen from afar, whose actions serve for an example and whose language is listened to." De Tocqueville, "On America," Volume II, Chapter V, "OF THE USE WHICH THE AMERICANS MAKE OF PUBLIC ASSOCIATIONS IN CIVIL LIFE," **http://xroads.virginia.edu/~HYPER/DETOC/ch2_05.htm**

22 For an array of resources that NAR makes available not only to its members, but to the general public on affordable housing issues, see the NAR Housing Opportunity Program Site Map, **http://www.realtor.org/hous-opp.nsf/pages/sitemap?OpenDocument** (last visited May 28, 2006)

23 See, for example, the video available at **http://www.realtor.org/housopp.nsf/pages/hotools?OpenDocument** (last visited May 28, 2006)

24 **http://www.realtor.org/HousOpp.nsf/files/blueprints.pdf/$FILE/blueprints.pdf** (last visited May 28, 2006)

video of about eight minutes is also available on line.[25] In fact, the booklet and the video have application far beyond the REALTOR® community, as are other useful tools found at the site.

The program has also conducted a series of well-received semi-annual conferences. As an example, NAR has sponsored semi-annual regional summits on housing opportunities since 2002. Here is an abbreviated schedule of presentations at the summit held on April 24, 2006 in Vienna, Virginia, that focused on workforce housing:

- Booming Growth and Tight Housing Markets: Where Will the Region's Future Workforce Live? A policy roundtable moderated by Judy Woodruff, Political Anchor and CNN Contributor

- Marketing the Vision; How Do You Build Community Support for Housing? A presentation by Julie Bornstein, President of the Campaign for Affordable Housing

- Building Blocks of Opportunity - Housing Virginia, a presentation by Susan Dewey, Executive Director Virginia Housing Development Authority

- The Business Stake in Workforce Housing: The Keys to a Strong Workforce, a presentation by Karen Elzey, Senior Director U.S. Chamber of Commerce, Center for Workforce Preparation

- Engaging Employers in Workforce Housing Through Employee Homeownership Assistance Programs, a presentation by Jackie Prior, Director of Expanding Markets, Freddie Mac

- Employer Assisted Housing Benefits - "Giving our Workforce the Keys to Homeownership," a presentation by Jennifer Butler, Vice President of Government Affairs, REALTOR® Association of the Palm Beaches

- What is the Realtors Role? A presentation by Steve Fox, Chair, Frederick County Association of REALTORS® Affordable Housing Committee

All of these presentations were either captured on video or powerpoint presentations, and may be found on NAR's Housing Opportunity Program website.[26]

NAR is also a major participant in a consortium known as The Homeownership Alliance, a recently formed organization dedicated to preserving, promoting, and expanding housing opportunities for all Americans. As a charter member, NAR is one of five organizations with a seat on the Alliance's board of directors. Other charter members are Fannie Mae, Freddie Mac, the National Association of Home Builders and the Independent Community Bankers of America. The Homeownership Alliance has compiled much important research on the affordable housing question available to the public on the web.[27]

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[25] **http://www.realtor.org/housopp.nsf/pages/hotools?OpenDocument** (last visited on May 28, 2006)
[26] **http://www.realtor.org/HousOpp.nsf/pages/RegionalSummit?OpenDocument** (last visited May 28, 2006)
[27] For a list of research (including material referred to at note 3 of this paper), go to **http://www.homeownership-alliance.com/studies/index.php** (last visited May 28, 2006)

NAR's research and outreach to and through its REALTOR® members continues to be a useful and effective means of disseminating information and promoting local solutions to the affordable housing problem.

TWO COMPLEX DEVELOPMENTS THAT INCLUDE AFFORDABLE HOUSING DIMENSIONS

DEVELOPMENT ONE: THE EAST BALTIMORE REDEVELOPMENT PROJECT

Project Overview

East Baltimore was once an economically healthy, thriving community, where families enjoyed a deep sense of community pride. While the residents continue to be one of the community's greatest resources, over time the neighborhood has suffered from years of disinvestment, blight, and crime. As a result, East Baltimore families and children consistently experience some of the worst outcomes in Baltimore in basic quality of life indicators such as employment, health, educational achievement, adequate housing, and crime and safety.

Over the past decade alone, East Baltimore[28] has seen a steady decline in population while housing vacancy rates continued to increase. The crime rate in 2004 was nearly double the rate for the City as a whole. The median sales price of an East Baltimore home in 2004 was nearly half the median for the City. More than one-third of all families in East Baltimore had incomes below the poverty level and the median household income was half that of the City's. While 14 percent of the population aged 16 to 64 were unemployed, 41 percent were not in the labor force (not working and not looking for work). Infant mortality is nearly double the City's rate of 14 per thousand.

Despite its social and economic challenges, East Baltimore continues to be rich with community assets. The Johns Hopkins Medical Institutions, Baltimore's largest private employer and one of its biggest economic assets, anchors the East Baltimore neighborhood. A powerful base of churches, local neighborhood service organizations, and grassroots community groups such as the Historic East Baltimore Community Action Coalition (HEBCAC), the Middle East Community Organization (MECO), and the Save Middle East Action Committee (SMEAC) bring unique strengths and important contributions to the neighborhood. These partners, with community residents, the City of Baltimore, the State of Maryland, and local philanthropies—including the Annie E. Casey Foundation—have come together in a groundbreaking effort to revitalize East Baltimore.

The East Baltimore Redevelopment Project is an ambitious plan to stabilize and revitalize East Baltimore by transforming the neighborhood into a healthier, thriving community for families and children. Led by the East Baltimore Development, Inc. (the non-profit organization formed to lead the revitalization of East Baltimore), the initiative embodies a commitment to "Responsible Development." This development approach combines economic, community, and

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[28] Data for East Baltimore as shown here represents the Perkins/Middle East Community Statistical Area. Source: Baltimore Neighborhood Indicators Alliance, *Vital Signs.*

human development strategies in ways that can ensure maximum benefit from the revitalization efforts for area residents, businesses, and the surrounding communities.

East Baltimore Development, Inc. (EBDI) seeks to ensure that East Baltimore residents and surrounding communities are measurably better off as a result of development activities as measured by:

- increased employment training, placement, and retention rates;
- increased financial literacy, asset building, and wealth creation through opportunities to expand homeownership;
- improved housing conditions for community residents;
- lower rates of crime and improved public safety;
- expanded educational outcomes for preschool and school-aged children in East Baltimore;
- increased opportunities for minority equity participation in real estate development activities;
- increased participation of minority, women-owned, and local business enterprises in the contracting, procurement, and professional services associated with the housing, commercial, and retail development in East Baltimore; and
- stabilization of neighborhoods surrounding the core East Baltimore project area.

Components of the 80-acre, $1 billion redevelopment of East Baltimore

---An expansive plan for the "Responsible Redevelopment" of the East Baltimore neighborhood

The project calls for the development of a two million square-foot life sciences and technology park adjoining Johns Hopkins Hospital that will serve as an economic anchor for significant commercial revitalization and the creation of an estimated approximately 6,000 new jobs. The development will provide over 1,500 units of new mixed-income housing and will include over $20 million in neighborhood infrastructure improvements (in Phase 1 alone), including new parks and new mass transit connections. An economic inclusion plan will offer significant economic participation of women, minorities, local residents and business enterprises in all facets of development.

Financing for the project is derived from a variety of sources. Key to the launch of the project was a $20 million loan guaranteed under the HUD Section 108 loan guarantee program[29] that enabled the acquisition of parcels in the target area and helped with relocation and support costs. Additional revenue was derived from New Markets Tax Credits,[30] state and city bonds, and from local foundations. Additionally, the Annie E. Casey Foundation and Johns Hopkins University each provided $5 million to fund expanded relocation services and benefits to residents of the community that were being displaced. The Casey Foundation also facilitated the

[29] The HUD Section 108 Loan Guarantee program, not mentioned previously, is part of the Community Development Block Grant (CDBG) program, and may be used to finance economic development, housing rehabilitation, public facilities, and large-scale physical development projects.

[30] New Markets Tax Credits, created in 2000 as part of the Community Renewal Tax Relief Act, may only be used for business development in qualified low income target areas, and not for low income housing. This credit is different from the Low Income Housing Tax Credit, or LIHTC, discussed supra.

project by guaranteeing a $15 million loan that was used to accelerate property acquisition. This guarantee represented an innovative use of the foundation's balance sheet and has provided EBDI with liquidity that would have been difficult to obtain.

---A comprehensive relocation plan that reflects an ongoing commitment to resident needs and well-being

The plan provides fair and equitable benefit packages for relocating residents, customized assistance to purchase or rent a home in a neighborhood of their choice, and a wide array of supports for residents including family counseling and advocacy, health services, education, job training and placement, financial counseling, and home buying opportunities. The development of a responsible demolition protocol is ensuring the health and safety of all residents living within and around the project area as more than 500 structures are taken down to make way for new housing and commercial enterprise.

---Job training and workforce development programs

These programs will help East Baltimore residents take advantage of the thousands of jobs that will be created as a result of this project. Approximately 6,000 new job opportunities can help support increased earnings, income, and assets for East Baltimore residents and reduce current economic gaps between East Baltimore and Baltimore City residents overall. Efforts will focus on customized training programs that will prepare East Baltimore residents for the construction, healthcare, and biotech career opportunities associated with the revitalization project.

---New educational opportunities for residents of all ages

A state-of-the-art community campus, anchored by a new public elementary/middle school, will become a focal point of the revitalized community, providing not only education but also health and social services, recreational opportunities, and cultural enrichment programs for East Baltimore residents. In addition, the implementation of supportive early childhood programs to prepare students for success in elementary school will be a top priority.

A Summary of 2005 – 2006 Project Accomplishments

---Redevelopment

- Following several months of negotiations, Johns Hopkins reached an agreement with Forest City/New East Baltimore Partners (the Project's Lead Developers) and will be the anchor tenant in the first life sciences building, located at 855 N. Wolfe Street. Johns Hopkins will lease one third of the nearly 300,000 square-foot building. Based on the signed Letter of Intent, a ground-breaking will be held in late March. Forest City will start construction in the spring and complete the building in 2008.
- The Baltimore City Council and the Mayor have passed and signed all of the necessary zoning and land use approvals for the first phase of the project.
- In November, pre-construction development began on a 74 unit senior citizens apartment building, supported by Maryland state low-income housing tax credits. Tax credits have

also been secured from the state to move forward with a 78 unit apartment complex that will provide workforce housing that will be affordable to families in a middle-income range. Development of these units will begin in the spring. Completion of both complexes is slated for 2007.

- Over $20 million of infrastructure improvements are currently being bid through the City for EBDI. The infrastructure investments will upgrade and update the electric, technology, and water needs for the first phase of development.

---Relocation

- As of March 1st, virtually all of the 397 households in Phase I of the project had been successfully relocated. The majority of these residents moved to areas with greater stability in terms of housing value, household income, racial and economic diversity rates, domestic violence, child abuse, adult employment, and other quality of life indicators.
- On average, homeowners saw the value of their home increase from $30,000 to $150,000. Of the relocated residents, nearly 15 percent of the original private renter households became homeowners with an average home value of nearly $100,000.
- Results of the first independent Post-Relocation Satisfaction Survey of households that had moved between March 2003 and June 2005 found that:
    - the majority of households had very positive relocation experiences;
    - the overwhelming majority of households believe that they are better off than before the move;
    - overall, households felt that they had moved to better neighborhoods (less crime, less poverty, etc.); and
    - residents gave EBDI consistently high marks across all components – relocation, family advocacy, and services.

---Demolition

- Working in close coordination with East Baltimore residents, EBDI developed a set of demolition protocols that are safer and more responsible than any used previously by Baltimore City and, arguably, any other city nationally.
- An independent advisory panel identified by Casey (with support from the Robert Wood Johnson and MacArthur Foundations) has been reviewing data and testing results. The panel will continue to monitor on-going demolition and report back to the community.
- To date, 44 buildings have been demolished and the Panel continues to express a high degree of confidence in the process. Approximately 460 buildings will be demolished by June 2006.

---Family Support Services

- Family Advocacy and Direct Services Counselors were assigned to each of the 397 relocated households and worked with families to develop and implement a viable family success plan. Counselors provided or referred residents with a range of services aimed at supporting a successful transition and better post-relocation outcomes. These supports included access to workforce training, substance abuse and mental health counseling, credit counseling, utilities assistance, legal services, literacy and education programs, health services and after school, childcare and mentoring programs.

---*Workforce Development, Employment and Asset Building*

- A range of efforts have now been put in place to help East Baltimore residents prepare to take advantage of the new jobs expected to be created by the project. These include:
    - Customized 4-6 week job development programs aimed at preparing residents for entry-level positions in healthcare, customer service and construction;
    - A four month pre-apprenticeship program for employment and advancement in the construction industry;
    - A customized three month training program to prepare residents for Lab Associate positions, run by the Biotech Institute of Maryland; and
    - Two new efforts — Project Serve and Project Bridge — that are preparing and placing formerly incarcerated residents into jobs in the East Baltimore community.
- Partnerships have been developed with employers willing to make new opportunities available to East Baltimore residents. One of the strongest has been with UPS, which is working with EBDI to coordinate customized job training programs for entry-level positions. To date, over 30 residents have participated in training and 14 individuals have been hired for entry-level, part-time or seasonal jobs.
- EBDI has consciously developed new programs to support family asset development. Among these are the establishment of a Center for Working Families at the East Baltimore Resource Center which offers workforce, tax support, IDA access, financial literacy, legal services and home ownership counseling.

---*Education*

- Plans are moving forward to establish an East Baltimore Family Resource Center that would open in the fall of 2006. The Center would provide a range of supports services aimed at parents of young children. It would also offer day care and early childhood services. In addition, the Center will partner with other child care providers in the community and offer training and other capacity building experiences that can enhance the quality of early childhood support for young children and their parents. Current thinking is to house this facility in a local elementary school building that is scheduled to close this June.
- Negotiations have begun with the Baltimore City School System and other partners, including the Forrest City Development team, to establish a new state-of-the-art Pre-K through 8 school with a strong math and science focus. The aspiration is that the new school will be housed on a campus setting, provide a range of comprehensive educational and social services for children and families (similar to a Beacons model), and be co-located with another youth development enterprise such as a Boys and Girls Club.

In sum, the East Baltimore Initiative is well launched. Among its achievements will be the creation of a mixed income community that will have been developed using responsible relocation and redevelopment principles and sponsored by a unique public/private investment partnership in which the philanthropic community played a catalytic role. The residents of this once blighted community, both renters and owners, will have been successfully relocated to homes or apartments in safer communities, have better quality living arrangements, have access to better schools and they will have been provided with an array of social services that will have eased the trauma of relocation.

These former residents will also have the option to return to their former neighborhood once the redevelopment is completed. There they should find a more attractive community with amenities that were previously missing. The community will have a mix of incomes, green spaces to facilitate healthy living, senior and student housing, social services, shopping facilities and will be anchored by a state-of-the-art elementary/middle school. Workforce/affordable quality housing will be available to residents of East Baltimore and the adjacent Hopkins facilities will have a vibrant community for their students, faculty and clients to enjoy.

In addition EBDI will have demonstrated that responsible relocation and community redevelopment practices can be employed to create mixed income communities that provide affordable workforce housing. EBDI will have shown that foundations can be viable catalysts to stimulate and facilitate such developments and that "anchor institutions" such as Johns Hopkins University, can benefit significantly by becoming involved in community redevelopment and revitalization efforts. The public/private partnership that is rebuilding East Baltimore, and targeting affordable housing issues as one of a multitude of objectives, is a model that more communities should emulate.

DEVELOPMENT TWO: THE REDEVELOPMENT OF STATEWAY GARDENS INTO PARK BOULEVARD: TRANSFORMATION FROM PUBLIC HOUSING TO A TRULY MIXED INCOME COMMUNITY

On the south side of Chicago, a new neighborhood is being built named Park Boulevard on the site of the former Stateway Gardens public housing project. This effort is being developed under the Chicago Housing Authority's (CHA) Plan for Transformation, and has been planned and financed by Stateway Associates, LLC, a private developer, with a goal of reducing the demand on public resources to fund the redevelopment of low income and affordable housing. With over 66% of the housing being developed as for-sale housing, a significant new tax base will be created that can provide tax increment financing (TIF) for public improvements, and the need for public subsidy is limited to funding for CHA replacement public housing units and free land for affordable for-sale housing units. In addition, the CHA will receive income for sale of market-rate housing development sites. When completed, Park Boulevard will redevelop over 40 acres of the former Stateway Gardens CHA property, a city park and adjacent under-utilized property. The redevelopment goals will heal decades of failed public housing policies in the neighborhood, revitalize the surrounding community and end over 50 years of economic and social isolation. Park Boulevard will have in excess of $300 million of investment in new homes for 1,316 families on tree lined streets with residents occupying a mix of one-third public housing, one-third affordable homes, and one-third market-priced homes. There will be a mix of unit and building types. Park Boulevard will be a neighborhood reborn.

Chicago's History of Neighborhoods and Rebuilding

Projects of the scope and purpose of Park Boulevard are not new to Chicago. The City has a long and varied history with affordable housing and neighborhood building.

After the Great Chicago Fire in 1871, not unlike New Orleans after Katrina in 2005, Chicago had reconstruction choices to make. In 1871 Chicago saw different socio-economic and racial groups battling for land control. Building practices were debated and affordable housing was a significant issue. Much of the challenge centered on established building restrictions that limited the places within the city where one could construct housing. The city delineated "boundaries" where only brick or stone homes could be built – for "the public good." This effectively zoned lower cost wood frame housing out of some districts, discouraging economically diverse neighborhoods. The tendency for neighborhoods to develop distinct differences based on immigrants' cultural, religious and language preferences was commonplace during the latter part of the nineteenth century. By the time Chicago began generating thousands of industrial jobs that attracted African-Americans from the South the practice of ethnic and racial segregation was firmly entrenched.

Located adjacent to the Chicago Stock Yards and industrial belt, a community was established south of the city center in a long narrow strip, known as the "Black Belt" and later part of "Bronzeville." As labor shortages in the stockyards and other industries during World War I drew large numbers of African Americans from the South, the African-American community in this area grew quickly. Bounded on the west by rail yards and industrial properties and on the east by affluent white residential neighborhoods, the belt extended a distance of nearly five miles, and very few places in the nation had a greater concentration of African Americans and poor people.

Preceding the so-called Great Migration, racial tension had erupted over access to services and safe housing, and the area's prior residents, mostly Jewish and Irish, had left the neighborhood. Using socially restrictive housing covenants, intimidation, and urban renewal projects (highways) a color line had been drawn around the area that hemmed in African Americans. As increasing numbers of African Americans settled in Chicago the area became overcrowded and living conditions deteriorated. Over several decades of economic isolation, and given the impact of the Great Depression, the community became a classic example of urban blight.

As was the case elsewhere in the US, this pattern of deindustrialization, discrimination, and disinvestment led to the construction of large public housing complexes on "super-blocks." Between 1954 and 1967, the CHA constructed more than 10,300 public housing units. Along State Street, entire residential blocks were appropriated for the construction of public housing projects. During the ensuing decades the city moved to tear down vacant derelict buildings, leaving gaps in the urban fabric, often for blocks. The austere high-rise buildings of the CHA were expensive to maintain, difficult to police, and discouraged neighborhood foot traffic, further displacing the sense of community. Chicago's public housing projects, with early aspirations as paths to homeownership for the middle class, by the 1980's had become isolated islands of despair and concentrations of the very poor.

Court Mandated Transformation

Acting pursuant to court order in a complex lawsuit that dates back to 1966, Chicago has developed a Plan for Transformation. Under the Plan, the CHA is committed to improving the appearance, quality and culture of public housing in Chicago and reinventing public housing in

Chicago. The Plan represents the largest reconstruction of public housing in the nation's history. Under the Plan, the CHA will:

- Renew the physical structure of CHA properties
- Promote self-sufficiency for public housing residents
- Reform administration of the CHA

After decades of deterioration the miles of high rise public housing buildings in what was Bronzeville are to be demolished under the Plan of Transformation. Approximately 25,000 units of housing will be built or rehabilitated, including approximately 6,100 family units scheduled to be redeveloped as new mixed-income housing.

CHA Mixed-Income Redevelopment Strategy

The CHA plan is to rebuild on the same land, creating new mixed-income communities with contemporary town homes and low-rise buildings. Public housing residents will live in the same neighborhood with owners of market rate and affordable homes. Generally, these developments will consist of one-third public housing, one-third affordable housing and one-third market rate housing. To implement this strategy, the CHA solicited and selected private developers to have the full responsibility to plan, finance, construct and operate the redeveloped communities. CHA would support and participate in the redevelopments by providing land, capital and/or Hope VI funds.

Park Boulevard

Park Boulevard is the redevelopment and re-branding of the Chicago Housing Authority's Stateway Gardens public housing project built in 1958. The new name, like the redevelopment plan, represents a total departure from the historical public housing concept. The 33-acre development originally consisted of eight high-rise buildings which accounted for 1,644 public housing units. Today approximately 89 residents live in the remaining one high-rise building at Stateway. It is scheduled to undergo demolition in the fall of 2006. The other seven buildings were demolished to make room for a lower density, mixed-income community.

The economic conditions of the Park Boulevard community are challenging. The following table compares the neighborhood with the devastated 9th Ward in New Orleans following Katrina:

	Ninth Ward New Orleans	Park Boulevard Chicago
Average Family Income	$37,214	$26,470
Population	12,008	26,470
Poverty Rate (%)	28	38
Child Poverty (%)	41	61
Share of Population that is Black (%)	92	91
Share of Population that is White (%)	7	6
Unemployment Rate (%)	11	18
Share of Households with public assistance income, including SSI (%)	17	32
Share of the 25+ population with High School diploma (%)	78	60

Share of the 25+ population with college degree (%)	16	13
Proportion of families with own children who are female headed (%)	50	49
Share of adult population that is over 65 (%)	22	13
Share of units occupied by owners (%)	62	12
Share of units occupied by renters (%)	32	87
Vacancy rate (%)	11	17
Share of owner-occupied units with mortgage (%)	52	76

Source: U.S. Census 2004

Master Development Approach

To redevelop Stateway Gardens and its other large housing sites, the CHA solicited proposals from developers for each of the locations it intends to transform. To respond to the Stateway Gardens opportunity, four organizations joined together and formed Stateway Associates LLC. This partnership consists of Mesa Development Group, Davis Development Group, Kimball Hill Homes and Walsh Construction. The goals of the four partners are:

- Redevelop the former Chicago Housing Authority site using traditional Chicago neighborhood patterns – tree lined streets, mix of density and building types, neighborhood parks and service retail.
- Re-establish the Chicago street grid on the site
- Concentrate on home ownership as opposed to rental
- Create mixed income buildings…do not segregate rentals from owned units or rich from poor
- Avoid HOPE VI funding for the development because of transactional costs; instead leverage private for-sale development, new taxes and a limited stream of funds from the CHA

The redevelopment plan for Park Boulevard emerged from a community consensus building process including on-site planning with hundreds of public meetings with public housing residents, community members and a team of planners and multiple architects. The planning effort achieved full support of the local community for the mixed income approach as well as for development layout, building types, and other key considerations. The developer has committed to creating a not-for-profit community services organization to support the transition of the public housing residents into the new mixed income community, and to incorporate green development practices.

The project required extensive rezoning and replacement of infrastructure, and the final plan was recognized with the Congress for New Urbanism Award of Excellence.

Park Boulevard Challenges and Implementation

To allow CHA to continue to occupy existing public housing on the site for a transitional period, the redevelopment is divided into four phases. The project duration will take up to six years to complete and calls for diverse housing types that include single family homes, town houses, three, four, five and six flats, mid-rise buildings and a small amount of retail space. A total of 1,316 units will be built as part of the plan for Park Boulevard; 880 units on-site and 436 units off-site.

	Phase 1	Phase 2	Phase 3	Total
Market (For Sale)	130	84	224	438
Affordable (For Sale)	77	84	80	241
Total For Sale	207	168	304	679
Affordable (Rental)	53	0	145	198
Total CHA (Rental)	131	84	224	439
Total Rental	184	84	369	637
On Site Units	311	168	401	880
Off-Site Units	80	84	272	436
TOTALS	**391**	**252**	**673**	**1,316**

Public/Private Partnership

The go-ahead for the development is based on an agreement with CHA and the City of Chicago. Pursuant to its terms, CHA provides:

- Pre-development loans for project planning
- A 99 year plus 99 year land lease for all land, except for parcels to be developed beneath single family homes, for $1 per year
- Complete site environmental remediation funding
- Funding of a fixed capital amount for each public housing unit, by phase
- Funding of annual operating expenses for public housing rental units to be managed by Stateway Associates
- Seed funding for a Not-for-Profit Community Assistance organization to be formed by Stateway Associates
- Free land for affordable for-sale units subject to deed restrictions on re-sale

The City of Chicago provides:

- Completely new roads and public utility infrastructure. Roads, sewer and water funded by the City of Chicago Capital Funds
- Tax Increment Financing Authority and TIF Notes for Developer Financed TIF Improvements
- Bond Capacity

- Funding for a new park field house
- Low Income Housing Tax Credits (LIHTCs) for rental housing (4% and 9% credits)

Stateway Associates (Developer) provides:

- Day to day management and oversight of the development process
- Financing of pre-development activities, marketing and private development approvals
- Guaranteed contracts for cost of construction, for environmental remediation, developer funded infrastructure and delivery of CHA condominiums (CHA rental units)
- Equity financing and debt financing for all housing and infrastructure not constructed by the city including repayment guarantees
- Completion guarantees to CHA, City, Lenders and TIF bond holders
- A payment to CHA of 4% of the gross sales price of the market rate housing units for Phase I and 7% for future phases

The funding structure consists of four major sources: developer equity, Chicago Housing Authority capital funding, tax credit investor equity, and a tax increment financing (TIF) loan. In this structure, the developer gives completion guarantees to the tax equity investors, the construction lender and CHA, as well as to the TIF bond investors.

As mentioned above, Stateway Associates eschewed federal Hope VI grants for the public housing units, which might have been as much as $16 million for the initial phase. Though HOPE VI grants are often a primary source of funding for transforming public housing to mixed-income private development, the transactional costs of HOPE VI were deemed by Stateway Associates to be too high. The market location and for-sale development strategy was deemed strong enough to forego HOPE VI. But avoiding government funding has led to its own issues; the decision may have delayed construction of the first phase.

CONCLUSION

To combat the serious urban problem of housing affordability in the United States, which by some accounts is growing worse (especially as regards the availability of affordable rental housing), a number of federal programs are in effect (and, indeed, many more exist at state and municipal levels, though not addressed in this paper). The most effective programs for promoting affordable rental housing are probably the Low Income Housing Tax Credit that attracts private equity to new construction and rehabilitations, the Section 8 rental voucher system that potentially makes any privately owned rental units available for low income households, and the HOPE VI program focused on the conversion of distressed public housing to mixed use housing.

Other important federal programs would include the HOME and Community Development Block Grant programs, both of which support affordable rental housing and housing ownership in a variety of ways.

The major federal programs for promoting home ownership at the entry level include loan guarantees by the Federal Housing Administration and the Veterans' Administration. Fannie Mae's mortgage securitization activities have materially increased mortgage available and improved liquidity in the housing market and the banking business. But the most popular federal initiatives relative to home ownership are the mortgage interest and property tax deductions and the qualified capital gains tax exemption.

Experts including the members of the Millennial Housing Commission who authored "Meeting our Nation's Housing Challenges", and former Secretary of HUD Henry Cisneros, have prescribed improvements in the indicated federal programs with especial attention to affordable rental housing. Though federal policies have chalked up notable achievements over the years, they are losing ground at the moment and need major reforms and updates.

Affordable housing, however, is not a problem within the exclusive domain of government. Indeed, there is consensus among policy makers that to achieve solutions to the US affordable housing crisis at scale, major support and involvement by the private sector is necessary.

One such form of support is dissemination of information and advocacy that contributes to solutions --- an approach enthusiastically embraced by the National Association of REALTORS©. NAR's more than 1.2 million members, and its more than 1,600 state and local real estate boards, have been enlisted in this effort.

Obviously, the private sector representatives on the line every day in the affordable housing challenge are the developers --- both the for profit organizations such as Stateway Associates, LLC now creating Park Boulevard in Chicago, and the NGOs such as East Baltimore Development, Inc. that is redeveloping East Baltimore. The initiatives that these private players take, and their projects, show the earmarks of strong entrepreneurial tendencies, and no two are alike. Most projects that involve affordable housing also address many other urban renewal issues --- as is the case with the two examples. Not every project avails itself of all available federal programs. But to the extent that private developers can make ends meet as they work their way through these enormously complicated, multi-faceted undertakings, and to the extent that they can achieve cooperative relationships with governments and government programs, the prospects are promising for major gains in combating the US affordable housing crisis.