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Homeownership Zones: Transforming Blighted Neighborhoods

Homeownership zones have transformed neighborhoods and provided homeownership opportunities for low- and moderate-income families.

Eleven demonstration cities in the United States are testing the idea that a well-designed, large-scale, mixed-income housing development can transform a blighted neighborhood into a safe and healthy family-oriented community. This Homeownership Zone (HOZ) demonstration program is part of a national strategy to expand homeownership.

In 1996, HUD made $30 million in Economic Development Initiative grant funds available, together with companion Section 108 loan guarantees, to six cities wishing to participate in the demonstration program. The following year, HUD made $20 million in recaptured Nehemiah grant funds available to another round of applicants. The 11 HOZ demonstration cities are Baltimore, Maryland; Buffalo, New York; Cleveland, Ohio; Louisville, Kentucky; Philadelphia, Pennsylvania; Sacramento, California; Flint, Michigan; Indianapolis, Indiana; New York City, New York; San Juan, Puerto Rico; and Trenton, New Jersey.

Based on the layout of the target areas and the availability of vacant land, each demonstration city is taking one of three general approaches to creating homeownership zones:

- Rebuilding or rehabilitating an entire target area;
- Developing entire blocks or multiple blocks interspersed with blocks of older units; or
- Building or rehabilitating single or several units between preexisting units within a target area.

Every project is guided by a master plan that includes developing approximately 300 new homeownership units and other improvements, creating local public-private partnerships, and leveraging other investments. All 11 cities proposed new construction; 6 cities decided to also rehabilitate some existing houses. Several undertook public housing modernization or HOPE VI projects as part of their strategy to transform neighborhoods. Each city agreed to sell at least 51 percent of the new homes to low- and moderate-income families.

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PD&R U.S. Department of Housing and Urban Development Office of Policy Development and Research

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Interim Status of HOZ Demonstrations

Most of the HOZ sites are still several years from completion. However, an interim evaluation reviewed the progress of the demonstration programs, examined the data that have accrued, and identified emerging best practices that should prove useful to other localities. This evaluation consisted of a review of program documents; site visits to eight demonstration projects; and synthesis of the available social, economic, and geographic data.

The HOZ approach has already brought substantive, positive changes to the target areas. The HOZ cities are in various stages of developing mixed-income neighborhoods. A total of 1,301 new and 145 rehabilitated houses were completed by December 2004. Of the 3,245 units planned, 44 percent have already been sold. For most, the percentage of home sales to low-income homebuyers ranged from 51 percent (the minimum requirement) to a very impressive 86 percent. Although the income of the other homebuyers generally fell between 80 and 120 percent of the area median income, some cities have departed from this pattern. Louisville successfully used purchase incentives to attract higher-income homeowners, and in the process, achieved the most economically mixed neighborhood. Two cities, Baltimore and San Juan, sold all of their homes to low-income families. Baltimore used federal HOME program funds, which require all assisted units to be purchased by low-income families.

Interim evaluators found that cities have made progress in demolishing or rehabilitating deteriorated buildings, renovating dilapidated open spaces, and removing debris. Most have created green spaces and are finding ways to maintain these open areas. All HOZ developments are close to public transportation, and many are within walking distance of convenience stores, schools, and churches. Residents report feeling safe and perceive a decline in crime in their neighborhoods.

Lessons from HOZ Cities

One significant lesson learned from the experience of HOZ cities thus far is that transforming a severely distressed neighborhood into a successful homeownership community takes time. HUD's expectation that projects could begin within 60 days after approving the plans proved to be extremely optimistic—given that the projects averaged 300 new units and were located in abandoned and deteriorated target areas. Immediate priorities included financing, land acquisition, restoration of infrastructure, and construction

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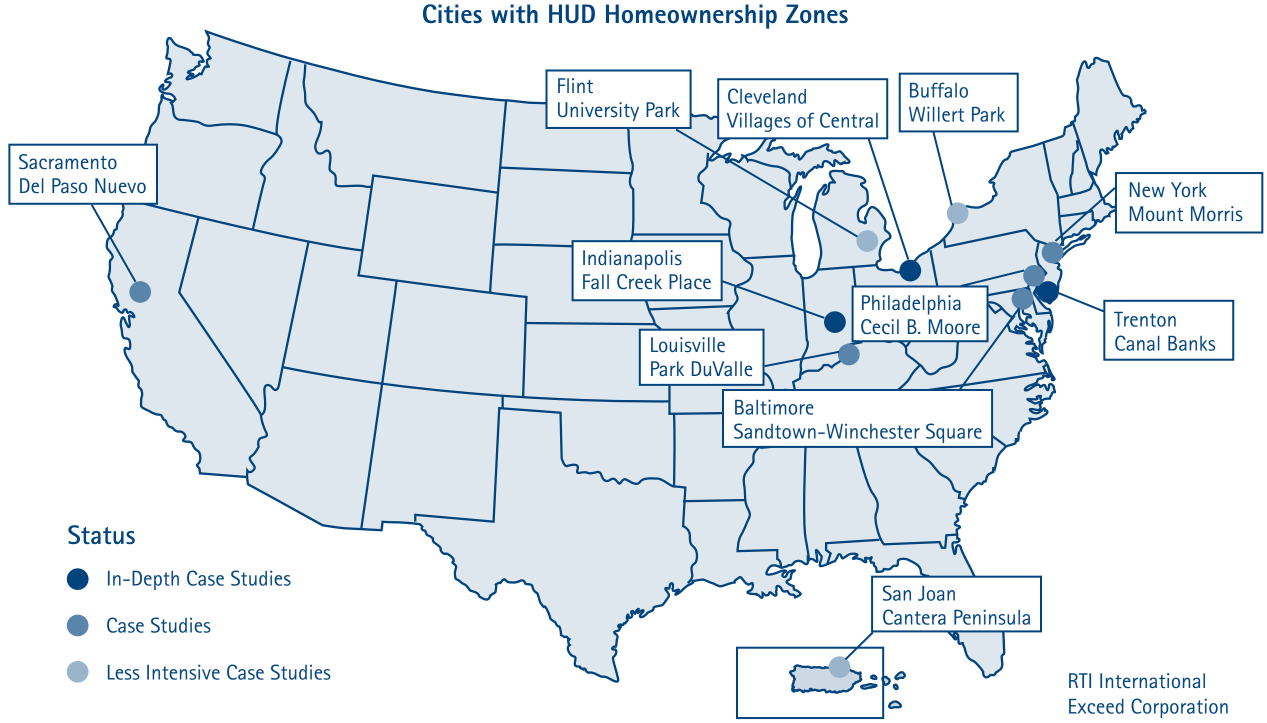
Cities with HUD Homeownership Zones



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Elders' Homes Have Lower Values

Do elderly homeowners' properties increase in value at the same rate as other houses? To answer this important question, HUD's Office of Policy Development and Research has published a study that examines the relationship between an owner's age and their house's gain in value. The study's findings could affect projections about the value of many seniors' largest asset—their home.

The Need for Accurate Assessment

Elderly owners, especially those with limited incomes and assets, need reliable information to help them plan for their financial future. Others, such as researchers, real estate agents, and financial advisers, also need accurate data about seniors' house values. Sons and daughters want to ensure that their parents will have sufficient resources to provide for themselves, while local governments depend on property taxes optimally linked to rising home values. Cities and towns must provide social services for seniors who choose to age in place. Both families and local governments have a stake in preserving elderly-owned properties as a source of affordable housing for the next generation of homebuyers.

The federal government also benefits from having accurate assessments of elders' house values. Through the Home Equity Conversion Mortgage (HECM) program, the Federal Housing Administration (FHA) insures reverse mortgages, which allow elderly homeowners to convert their home equity into cash. The homeowners need not pay off the reverse mortgage loan until they move or permanently leave their home, when it's sold to pay off the loan balance. The long-run viability of the insurance fund set up for these mortgages depends on projected house values exceeding the total loan balance. Because these loans can extend for 20 years or more, the government must make realistic assumptions about house price appreciation over long periods.

An Appreciation Lag: Why?

Ordinarily, one might assume that elderly owners' houses would appreciate at approximately 1.8 percent a year, the current national average for all homes over the long run, but the study finds that this is not usually the case. Based on current data, the house value appreciation rate for elderly homeowners is 1 to 3 percentage points lower than the national average. What could explain this disparity? The HUD study finds six likely explanations, none of which is definitive and all of which need more research. It may be that one or several of these theories, summarized below, explain the appreciation lag.

Out of Style and Inadequately Maintained

Elderly owners have health needs and other financial and personal priorities that may leave little money and energy left over for housing matters. As a result, the homes of elderly owners may be out of style and poorly maintained. Inadequately maintained and unremodeled homes have lower values than do newer homes that are more appealing to buyers.

Owner Intent

Another explanation pertains to the motives of the two types of homeowners—"movers" versus "stayers." Movers maintain and improve their homes because they intend to sell them and want to get a good price. Stayers plan to stay in their homes as long as possible. Beyond the age of 70 to 75 years, stayers tend to subtract value from their home by minimizing housing expenses and by not making improvements. They like their home the way it is and do not plan to sell.

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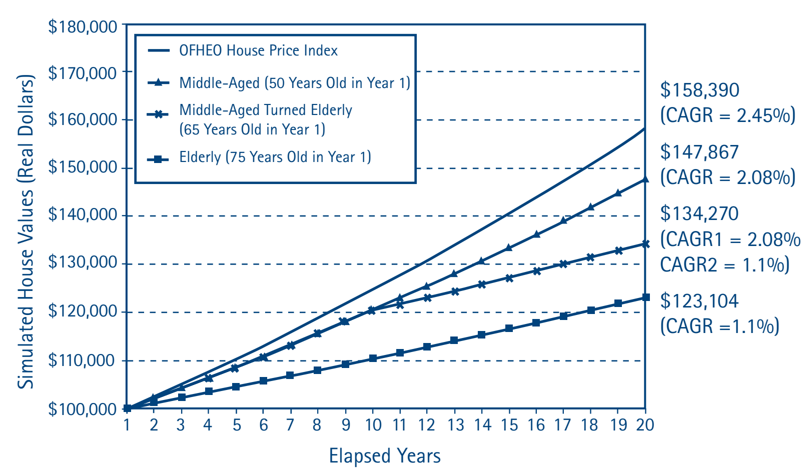
Simulated Appreciation of House Values for Different Age Cohorts



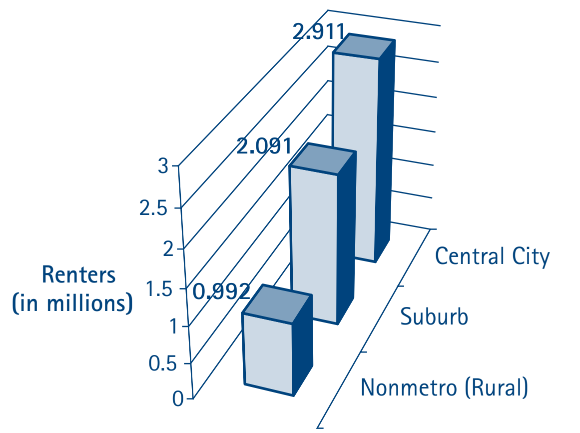
OFHEO: Office of Federal Housing Enterprise Oversight
CAGR: Compounded Annual Growth Rate

Source: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *The Relationship Between Homeowner Age and House Price Appreciation*, December 2005, p.20.

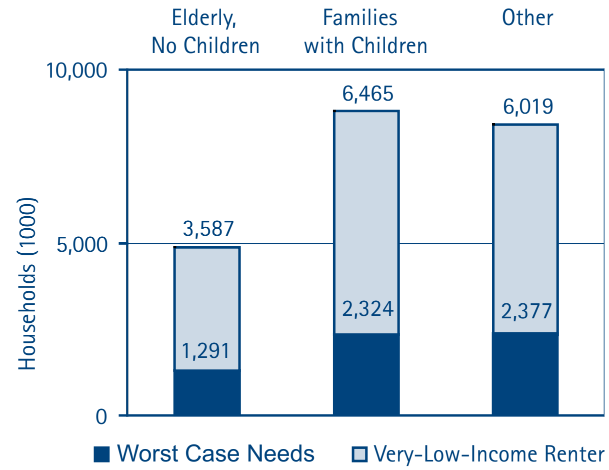
A Snapshot of Worst Case Housing Needs in 2005

There are nearly 34 million renter households in the United States. According to the latest assessment by HUD's Office of Policy Development and Research, 11.52 million renter households receive no housing assistance and are very-low-income households, meaning they make less than 50 percent of the area median income (AMI). More than half (5.99 million) have worst case housing needs.

Worst case needs households have incomes below 50 percent of AMI, receive no rental assistance, and live in units that rent for more than 50 percent of the household's income and/or are in severely inadequate condition. In addition, 77 percent of these are extremely-low-income households, reporting incomes of less than 30 percent of AMI. Worst case needs households are found in every region, and all metropolitan area types: central cities, suburbs, and nonmetropolitan areas (rural). The extremely-low-income households have incomes that average $648 per month and pay rents that average $647 a month. The number of worst case needs renters grew by 16 percent between 2003 and 2005, and they currently make up 5.5 percent of all American households.



According to *Affordable Housing Needs 2005: Report to Congress,* the largest and fastest growing component of these households with worst case needs is families with children under 18 (2.32 million). An estimated 39 percent of these families have the equivalent of full-time employment. Elderly households (1.29 million) make up 22 percent of renters with worst case needs. The balance is comprised of renters who neither are elderly nor have children in the household. This group includes singles or nonfamily households, families headed by a disabled person, and other types of families generally consisting of related persons without children.



Supply Issues

At lower incomes, the pool of affordable rental units shrinks and the available housing choices are limited for worst case needs households. In 2005, 77 rental units were affordable and available for every 100 very-low-income renter households. This decrease from an 81:100 ratio in 2003 points to a tighter market for low-rent units. Physical inadequacy further reduced the number of units available to very-low-income renters to 68 per 100. At the same time, average monthly income for extremely-low-income worst case needs renters fell by 3.7 percent and the average gross rent rose by 6.6 percent. Without available and affordable housing, a substantial number of these households make special housing arrangements that include a place to live in exchange for work or as in-kind assistance from families or charities.

The shortage of units is made more pronounced by households with higher incomes living in rental units affordable to those with less income. The table that follows on page 7 shows the affordability and

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Elastic Market Supply

Many retirees move to the Sun Belt or to rural areas seeking lower housing costs and a better environment. The housing markets in these destinations offer an opportunity to avoid high-priced land in or near employment centers. Thus, elderly owners can buy property with fewer regulations, where new construction is easier and less expensive. The only disadvantage is that over time, the housing supply keeps up with new demand and, therefore, the house values of elderly owners do not appreciate at the same rate as properties in areas where the supply is less elastic.

Tenure and Building Age

The elderly tend to live in the same house for a long time. Lower appreciation rates for their house values are related to the depreciation associated with older homes.

Downward Bias

Variance in house values increases with age. Owners may reduce the self-reported value because they are uncertain about its market value in light of its age. Buyers and appraisers may also discount atypical units that have aged with character.

Lack of Market Awareness

Elderly owners who have not bought or sold a house in many years may not be good judges of the current market value of their homes. Some owners may even lack the mental capacity to provide an accurate assessment.

A new HUD study examines potential reasons for low housing value appreciation rates among elderly homeowners.

From the findings of this HUD study, the most obviously useful federal policy change would be to adjust the expected recovery from house sales under the FHA's HECM program. Local governments could assist elderly citizens aging in their own homes by offering maintenance loans and deferring their property taxes until they leave their houses. In addition, cities could lower property taxes to more accurately reflect a home's condition.

The complete report, *The Relationship Between Homeowner Age and House Price Appreciation*, is available at no cost at **www.huduser.org/publications/hsgfin/rhaha.html**. Readers interested in developments in elderly housing might also be interested in *Elderly Housing Consumption: Historical Patterns and Projected Trends* at **www.huduser.org/datasets/ahs/Elderly_Housing_Consumption.pdf**.

Homeownership Zones: Transforming Blighted Neighborhoods *continued from page 2*

preparations. On average, it took nearly four years to begin construction and six years to reach the 50-house mark. Another three to six years will pass before all new homebuyer units can be completed and sold. Throughout the process, public perceptions of the neighborhood had to be revised, units marketed, and low-income, first-time homebuyers counseled and qualified.

In their report, the evaluators also share lessons that HOZ cities have learned about successful site selection, land acquisition, leadership, administration, partnerships, community participation, financing, resident relocation, design and construction, energy efficiency, marketing, and commercial development. Communities thinking of revitalizing deteriorated areas with concentrated, mixed-income homeownership developments will surely benefit from the experience of HOZ cities as described in this report. *Interim Evaluation of HUD's Homeownership Zone Initiative* can be downloaded at no cost by visiting **www.huduser.org/publications/homeown/InterimEval.html** or ordered for a nominal fee from HUD USER by calling 800.245.2691 and selecting option 1.

New Address-Based Data Set Available to Housing Researchers and Practitioners

Thanks to a partnership between HUD and the United States Postal Service (USPS), housing researchers and practitioners now have a new tool to monitor neighborhood changes at the census tract level. Data on all residential and commercial addresses in the United States are now available at no cost on the HUD USER website. The data also show addresses USPS classifies as vacant (addresses where mail has not been collected for 90 days or more) or "no-stat" (addresses under construction, being rehabilitated, or otherwise unlikely to be active for some time). Mail carriers are important sources for this kind of information, particularly in urban areas.

The data, which are updated quarterly, can be opened in a variety of database programs. Practitioners can track neighborhood changes or trends by the following factors:

- Total number of vacant addresses;
- Average number of days addresses were vacant;
- Length of vacancy (from 3 to 36 months or longer);
- Addresses vacant during the previous quarter but now occupied, as well as those vacant in the previous quarter and now classified as no-stat; and
- Total number of no-stat addresses in a particular census tract.

Data are also available from USPS on the number of days an address has been listed in each category. Because USPS began tracking the number of days of tenure per category in November 2005, addresses that have been on the vacant list for more than three years will not appear until December 2008.

U.S. Postal Service data on all residential and commercial addresses in the country are now available from HUD USER.

Aggregating Data at the Census Tract Level

In accordance with our licensing agreement with USPS, HUD's Geocode Service Center (GSC) receives the quarterly data at the ZIP+4 level and aggregates it at the census tract level before distributing the data to the public. ZIP+4 records that do not geocode to the regular 5-digit ZIP code level are excluded from the aggregation process. However, GSC will include nongeocoded ZIP+4 records from the previous quarter when geocoding the current quarter's ZIP+4 records. Frequent updates of GSC data result in a variance in the number of records in the census tract files from quarter to quarter, which users should take into account when tracking changes over time.

Potential Data Uses

HUD is making these data available to researchers and practitioners as a means of determining their usefulness for tracking change in neighborhoods or census tracts over time. Some applications have already been identified. For example, a reduction in total addresses from one quarter to the next in an economically distressed area could indicate that demolition is taking place. Comparing the total number of addresses between quarters could also help distinguish areas in decline from those with high growth rates. An increase in addresses with a corresponding increase in no-stat addresses usually indicates new construction within that area. Vacation and resort areas will have high vacant address rates despite their high short-term occupancy rates.

Access this versatile research tool at **www.huduser.org/datasets/usps.html**, where you can also download quarterly files from March 31, 2006 to March 31, 2007. The data is available at no cost; users simply agree to the terms and conditions of a sublicense found on the HUD USER website before downloading the data. HUD is interested in what researchers learn from the information and how they are using it. Please contact **Robert_N._Renner@hud.gov** with any comments or questions, and put USPS Data in the subject line.

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availability of rental housing for extremely-low-income and very-low-income households. Relative to the AMI at which they are affordable, rental units are often occupied by higher income households. Most vacant units become available at rents affordable only to those earning above 40 percent of AMI, further illustrating the gravity of the problem.

Affordable Housing Needs 2005: Report to Congress concludes that available rental units are progressively harder to obtain at lower income levels. The increased number of worst case needs households; a shortage of affordable, available, and adequate units; and average rents that rose faster than average incomes combine to intensify demand. This situation can be seen in most local communities today, as epitomized by the experience of Baltimore, Maryland, which is described in the Urban Institute's 2005 analysis of low-end rental housing in that city:

"There are about two poor renters for every affordable housing unit in the city, and more than 16,000 households are on the waiting list for assisted housing. Nearly half of renter households with children are paying more than 30 percent of their income for rent, yet more than 40 percent are living in physically inadequate housing. More than one-third of the rental stock in Baltimore does not meet basic housing codes of physical adequacy."[1]

Estimates of worst case needs help illuminate the scope of the problem, but whether increasing public rental subsidies is the best way to help families secure decent, affordable housing is less clear. Other

1. Sandra J. Newman, "Low-End Rental Housing: The Forgotten Story in Baltimore's Housing Boom," Urban Institute, August 30, 2005.

Rental Housing Stock by Income Category, 2005

	Housing Units per 100 Households
Extremely Low Income (0–30% AMI)	
Affordable	67.6
Affordable and Available	39.9
Very Low Income (0–50% AMI)	
Affordable	117.1
Affordable and Available	76.7

ways to respond to this challenge include stimulating the housing supply by constructing new subsidized housing (perhaps through the Low Income Housing Tax Credit program), subsidizing housing with vouchers, eliminating local regulatory barriers to housing development, and enhancing the earning potential and job opportunities available to very-low-income households.

Affordable Housing Needs 2005: Report to Congress can be found at **www.huduser.org/publications/affhsg/affhsgneeds.html**. Previous HUD reports on worst case rental housing needs are located at **www.huduser.org/publications/affhsg/rha_main.html**. These reports are available to either download for free or to order for a nominal fee from HUD USER by calling 800.245.2691 and selecting option 1. The Urban Institute's report on low-end rental housing in Baltimore can be found at **www.urban.org/url.cfm?ID=311222**.

Almost 6 million low-income renters have worst case housing needs, including severe rent burdens and inadequate housing.

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In the Next Issue of... researchworks

- Every day, a network of 240 loosely affiliated nonprofit organizations is creating housing opportunities for residents of local communities around the nation. Although each nonprofit's mission is unique, each is also a committed charter member of NeighborWorks®. We'll look at the network's diverse local initiatives and its collective response to both the housing shortfall wrought by the Gulf Coast storms and to the rising rate of foreclosures nationwide.
- Panelized housing continues to gain market share in new construction for the affordable housing market. A new PATH study, *Panelized Wall Systems: Making the Connections*, sets forth research-based Performance Standard Criteria for the connection systems used for concrete, metal, wood structural insulated panels, and wood open-wall panels manufactured for home construction. Our story will briefly touch on how the criteria can foster better-informed construction decisions on the part of affordable homebuilders and designers.
- The St. Paul-Ramsey County, Minnesota Lead Hazard Reduction Program was created to promote compliance with HUD's lead-based paint regulations. The city-county partnership has developed a number of best rehabilitation practices for eliminating this barrier to affordable housing. We'll examine best practices employed by the city of St. Paul and Ramsey County, along with some of the challenges of removing lead-based paint.
- A troubled Washington, D.C. property that suffered from poor management, rampant crime, and physical deterioration recently reopened as a "green" complex serving low-income families and seniors. The National Housing Trust-Enterprise Preservation Corporation and Somerset Development renovated the 83-unit Galen Terrace Apartments. This article examines the physical improvements, green features, the role of Low Income Housing Tax Credits and CDBG funds, and how the extension of HUD's Section 8 contract will ensure that rents remain affordable for the next 20 years.

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