KEEPING THE NEIGHBORHOOD AFFORDABLE:

A Handbook of Housing Strategies for Gentrifying Areas

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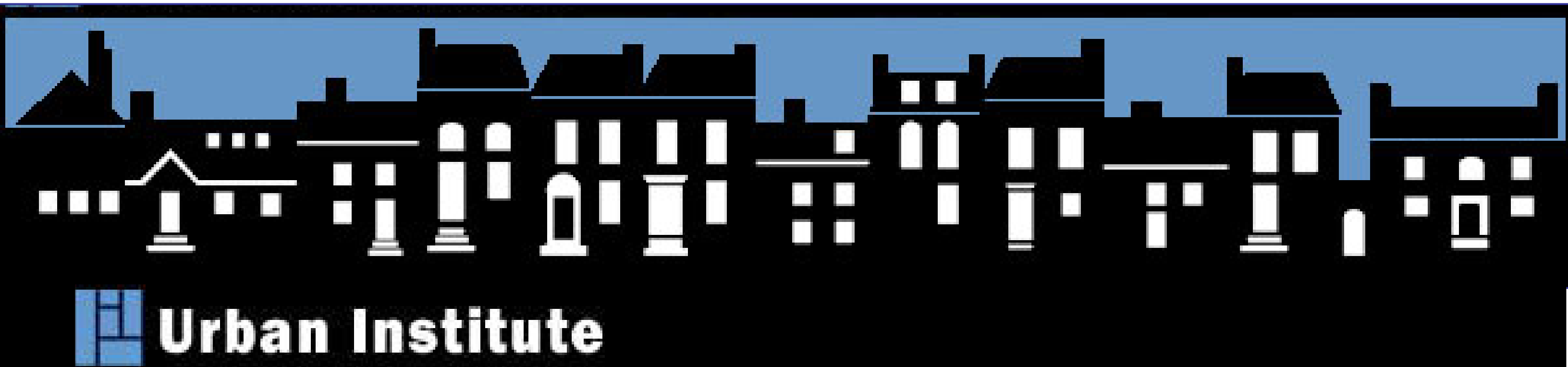

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section 1

INTRODUCTION

Housing prices began to rise nationally in the mid-1990s and continue to do so in both rental and sales markets in many communities across the U.S. While some observers are concerned that we are experiencing a housing bubble that eventually will burst, leading to drops in house values, low- and moderate-income people at present face increasingly limited affordable housing options as long-disinvested neighborhoods experience renewed attention. Gentrification and neighborhood revitalization raise the issue of whether it is possible to manage neighborhood investment so that positive neighborhood change can occur without displacing lower-income residents.

This handbook describes a wide range of strategies that local governments, developers, and nonprofit organizations can use to create and retain affordable housing in their communities. In the companion report to this handbook, *In the Face of Gentrification: Case Studies of Local Efforts to Mitigate Displacement*, we present six case studies of local efforts to create affordable housing and reduce displacement of lower-income residents. Stakeholders can have an impact on the availability of affordable housing in revitalizing areas if there is the commitment to do so.

This handbook is intended to support local efforts by providing an overview of strategies for addressing affordable housing. The strategies are divided into three categories: housing production, housing retention, and asset building. After describing each strategy, we consider possible outcomes and implementation challenges. This document adds to the body of literature on affordable housing strategies by considering the interplay of strategy implementation and housing-market context. For example, efforts to build new affordable housing in a neighborhood where prices already are high will need to take a different approach from that used in an area with a weaker housing market. (See *In the Face of Gentrification* for a discussion of strategies and market context.)

We present the strategies in the following order. Though some of these strategies are not necessarily intended to create or retain affordable housing, for example tax-increment financing, they can be used toward that end.

- Housing Production
  - Housing Trust Funds
  - Inclusionary Zoning Ordinances
  - Low-Income Housing Tax Credits
  - Split-Rate Tax Structure
  - Tax Increment Financing

- Housing Retention
  - Code Enforcement
  - Rent Control
  - Preservation of Federally Subsidized Housing (Section 236 and Project-Based Section 8)
  - Tax Relief Assistance

- Asset Building
  - Individual Development Accounts (IDAs)
  - Homeownership and Education Counseling
  - Limited Equity Housing Co-ops (LEHCs)
  - Community Land Trusts (CLTs)
  - Location Efficient Mortgages (LEMs)
  - Section 8 Homeownership Program

section 2

STRATEGIES TO DEVELOP AFFORDABLE HOUSING

One method to decrease the negative effects of gentrification is through affordable housing development. Municipalities, nonprofit organizations, and for-profit developers can provide affordable housing for low- and moderate-income households by building it. The following describes three tools or strategies used to fund the development of affordable housing—housing trust funds, inclusionary zoning, and the Low-Income Housing Tax Credit. Two additional strategies, the Split-Rate Tax and Tax Increment Financing, can support housing production, although their primary function is not the development of affordable housing per se.

Developers of affordable rental or homeownership units face a number of challenges. First, there must be available space or land in gentrifying areas. Neighborhoods seemingly without space need to use creative tactics to free up land for development, such as altering zoning regulations or converting vacant properties into viable units. Another challenge for strategies that develop new housing for ownership is that these strategies often neglect very low income households. Homeownership is not feasible for many low-income households due to financial insecurity or poor credit ratings. Rarely do new housing developments include homeownership services such as down payment and closing cost assistance or assistance with monthly mortgage payments. Developing a combination of units for rent and homeownership seems to be the most reliable way of addressing the needs of low- and moderate-income households.

Another challenge is enticing affordable development when land costs rise due to gentrification. Once a housing market accelerates and gentrification occurs, it becomes more expensive to provide affordable housing. It then takes political will to create incentives or regulations to build affordable housing, and the foresight to produce and retain affordable housing before the need becomes pressing.

A final challenge for the development of affordable rental or homeownership units is length of affordability. Most units built for low- and moderate-income households are required to remain affordable for only a set period of time. Therefore, affordable housing development might not satisfy affordability over the long term.

It should also be noted that the development of affordable housing will not necessarily mitigate involuntary displacement that occurs due to gentrification. Building new affordable housing will not affect the ability of pressured low-income households to remain

in their current units. What housing development can do, however, is provide affordable *alternatives* to involuntarily displaced households, potentially even within the same neighborhood, and mitigate exclusionary displacement or a shortage of affordable housing for future low- and moderate-income families.

The following describes each affordable housing development strategy separately.

Housing Trust Funds

Housing trust funds are a public-sector tool used to funnel financial resources to housing developers, nonprofit organizations, or local government departments to develop or rehabilitate affordable housing for low- and moderate-income individuals. A public agency is normally responsible for the collection and distribution of the fund's resources. Typical sources are real estate transfer taxes, accumulated interest from real estate transactions, and penalties for late or delinquent payments of real estate excise taxes (Linker et al. 2001).

Housing trust funds are inherently flexible: agencies can decide whether to use the money for grants or low-interest loans for for-profit or nonprofit organizations to construct or rehabilitate housing, to assist individual households with home purchases (such as closing costs), or to provide other housing services (Brooks 1999). The funds are also flexible in that they can meet the specific needs of different localities. For instance, some cities target special populations such as the homeless or handicapped providing them with single-room occupancy (SRO) units, while other cities focus on the development of affordable housing in the downtown area. Still others focus on affordable rental units. As of 2001, 150 housing trust funds were in operation, 37 of which were state-run (Linker et al. 2001).

Anticipated Outcomes

The benefits of housing trust funds include having a dedicated source of funding; that is, funding does not rely on budgetary appropriations (Brooks 1999). In addition, trust funds are protected–revenue can be used only for the stated housing purpose unless legislation is altered. Housing trust funds can be implemented in any size of city, large or small, or can be applied statewide. Some evidence shows that housing trust funds are capable of leveraging as much as seven additional dollars from private sources (Brooks 1999).

Implementation Challenges

A challenge in implementing housing trust funds is that an elected body, such as a city council, must vote to establish the fund. The real estate industry may oppose such legislation based on real-estate revenue, fearing that the imposed fees would stymie development overall (Connerly 1993).

Another challenge for trust funds is that a thriving real estate market is necessary to generate significant funding. For those areas not experiencing a strong housing market, little revenue will be generated through the trust fund; consequently, little affordable housing or services will be provided. Statewide housing trust funds can avoid this problem. City-based funds can find other creative funding sources, such as foundation or corporation contributions. Similarly, some researchers argue that housing trust funds do not generate enough resources to significantly increase the number of affordable units (Connerly 1990, 1993). A survey of 15 housing trust funds established in the mid-1980s created 27,278 affordable units by the early 1990s, averaging 4,160 units a year. The average trust fund assisted 278 units annually. However, there are wide disparities among the individual housing trust funds: five of the 15 funds created fewer than 100 units annually whereas another five developed 82 percent of the total number of produced units. Not surprisingly, those trust funds that captured a greater level of funding produced a greater number of units (Connerly 1993).

Timing Considerations

While municipalities can establish housing trust funds at any point in time—either before gentrification becomes a problem or during a period of gentrification, tying trust fund revenue to real-estate transactions limits the fund's effectiveness to periods of active real estate markets or gentrification. If localities wish to establish a housing trust fund during periods of slow or moderate real estate growth, they need to find other sources of funding, such as foundation and corporation contributions or state pooling of funds.

However, there are arguments for establishing a housing trust fund before gentrification pressures build rather than later. Lobbying for the creation of the trust fund and passing the necessary legislation takes time. And accumulating enough revenue, regardless of the source, is also time consuming. Finally, housing trust funds are not designed to help low-income households remain in their market-rate units once property values rise. Instead the tool is designed to provide new affordable housing, so there is an incentive to build affordable housing (that will remain affordable) before gentrification pressures rise.

Inclusionary Zoning

Inclusionary zoning, also referred to as inclusionary housing, can be a mandatory or voluntary municipal ordinance used to produce affordable housing for low- to moderate- income households within new market-rate residential developments. Typically, the ordinance requires that a minimum percentage of a new development's total units be designated as affordable, and that these units should remain affordable for a set period of time, usually between 10 and 20 years. Often, this ordinance applies only to developments with a minimum number of units.

Incentives may exist to defray the costs to the developer. A common incentive is a density bonus, which allows developers to create more units on a parcel of land than would otherwise be permitted. A density bonus can either equal the required number of affordable housing units, thus reducing the land costs, or developers may be permitted to build additional market-rate units, which would increase the developer's profits (Ray 2001; Burchell et al. 2000).

Other incentives include relaxing zoning restrictions, such as allowing developers to build unapproved unit types such as attached housing, build higher than normally allowed, provide more or less open space, and so on. There may be other development incentives, such as reductions in required road paving by the developer or subsidization or provision of infrastructure by the jurisdiction. Waiving or prioritizing permit fees or land dedication are other common incentives (Ray 2001; Burchell et al. 2000).

Some jurisdictions allow developers to buy out of affordable housing requirements by paying a fee into a fund dedicated to building affordable housing, building affordable units at another location, or providing additional land for affordable housing elsewhere. These provisions may be allowed when it is too costly to provide low-income housing on site or when more units of affordable housing could be produced elsewhere. However, some buyouts serve to reduce the number of affordable housing units built in the jurisdiction (Brown 2001).

Inclusionary zoning requires close administrative oversight to ensure that the mandatory units are built. If alternative means are used to meet the requirements (i.e., fees in lieu of units), additional oversight is required to ensure that affordable housing units are built elsewhere. Voluntary ordinances should provide strong enough incentives to promote the building of affordable units (Ray 2001).

Anticipated Outcomes

The goals of inclusionary zoning are to integrate affordable housing units throughout higher-income communities, improving neighborhood opportunities for low- and moderate-income households. Improved opportunities include better access to jobs, better city services and schools, and less dangerous streets (Brown 2001; Calavita and Grimes 1998). Affordable housing provided through inclusionary zoning ordinances often benefit the "working poor," such as teachers, police officers, and other service workers who struggle with the growing disparity between lagging income and rising housing costs (Brown 2001). Higher-income households also benefit through reduced sprawl, traffic, and car pollution due to such incentives as density bonuses, and businesses can benefit from having a larger pool of lower-

wage employees nearby (Burchell et al. 2000).

Implementation Challenges

Mandatory inclusionary ordinances must be established through legislation, which might face opposition from developers and the real estate industry. Opponents can resent the added government regulation and the potential risk to profits and costs (Calavita and Grimes 1998). Inclusionary zoning acts like a tax on developers, and its objective is to pass the additional costs onto the market-rate housing. However, if a real estate market is sensitive to price differences, then developers might find they have to reduce their profits or not build in that area. Incentives are intended to reduce some of the additional costs to the developers. It can also be challenging if a jurisdiction passes an inclusionary ordinance while its neighbors do not—developers might choose to build elsewhere.

A challenge is also posed to areas with long-established ordinances, such as Montgomery County, Maryland. The controls on the rent or sales of the earliest built affordable housing stock eventually expire leading to a reduction in affordable housing over time (Brown 2001).

A final challenge is that inclusionary zoning that leads to the development of units for homeowners may not benefit the lowest-income households, which cannot afford to purchase housing. Inclusionary zoning ordinances do not normally provide housing services such as assistance with down-payments or closing costs. Therefore, this population can be underserved where inclusionary zoning ordinances do not include the development of rental properties.

Timing Considerations

Inclusionary zoning ordinances can be implemented more easily during the intense periods of gentrification, although challenges still remain. When the housing market is strong and values increase rapidly, developers recognize profits exist for building the additional affordable units (Ray 2001). In a weaker housing market, profits are not assured and developers may choose to build in neighboring unregulated areas. Housing affordability crises in California and around Washington, D.C., during the 1970s both prompted the creation of inclusionary zoning ordinances (Burchell 2000; Calavita and Grimes 1998).

Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) is the major federal program designed to produce affordable rental housing. The program is attributed with generating between 550,000 and 600,000 units of affordable housing nationwide between 1986 and 1996 (Cummings and DiPasquale 1999). Stemming from the Tax Reform Act of 1986, LIHTC offers private investors federal tax credits (providing equity) in exchange for the development of affordable rental housing units. States

usually administer the program, although some local housing finance authorities do so as well. Administrators are responsible for setting the goals of the program, providing oversight and monitoring, and ensuring that the projects remain compliant. The Internal Revenue Service, in turn, is responsible for monitoring the administrative entities.

LIHTC is designed to be flexible. State or local administrators are responsible for setting the program's goals—they are not set by federal regulation. Therefore, LIHTC can cater to the needs of the local housing markets and the populations in need. Some states target special populations such as lower-income tenants (as opposed to low-income tenants), focus development in underserved areas, or provide social services in addition to housing (Cummings and DiPasquale 1999). There is flexibility in the types of rental housing built as well. For instance, some localities provide tax credits only for family rental housing with multiple bedrooms, while other localities target efficiency apartments for the elderly.

A study of roughly a quarter of the projects built using LIHTC during the program's first 10 years found that just under one-third were built by nonprofits (either nonprofit developers or private developers contracted by nonprofits) (Cummings and DiPasquale 1999). The same study also found that two-thirds of the projects were built in metropolitan areas: the percentage of projects located in central cities increased from 32 percent in 1987 to 56 percent in 1996 (Cummings and DiPasquale 1999).

Anticipated Outcomes

LIHTC's flexibility is just one of the benefits of the program. Another is that with the rising competition from developers and investors for the tax credits, LIHTC projects have become more efficient: more of the tax dollar goes directly into the production of affordable rental housing than paying higher investor returns (Cummings and DiPasquale 1999). Gap financing from private or public sources is often critical in allowing private developers to target low-income populations (Tatian 2002). Additional public financing (or subsidies) has come from Section 8, HOME, Community Development Block Grants (CDBG), and HOPE VI.

There is evidence that LIHTC is being used to develop rental housing where the need is great, and the credits can contribute to property values in low-income areas. In some neighborhoods, LIHTC units are the only new residential construction in recent years. In 13 percent of the census tracts sampled in one study, LIHTC units represented 20 percent of all rental housing (Cummings and DiPasquale 1999). Properties in some neighborhoods also experience increased property values after the development of the LIHTC rental units (Johnson and Bednarz 2002). The majority of LIHTC units are built in low- and

moderate-income neighborhoods (Cummings and DiPasquale 1999).

Implementation Challenges

LIHTC is designed to bring the efficiencies of the private market into partnership with public goals; however, private and public goals are often in opposition (Cummings and DiPasquale 1999). The state administrators might set goals targeting lower-income populations or requiring social services, which increases the risk for the developer and investor. The result is often that the lowest-income populations are not served by LIHTC.

LIHTC can be used either to provide better quality housing in poor neighborhoods or to provide affordable housing in higher-income neighborhoods. Cummings and DiPasquale (1999) found that the majority of LIHTC units are built in low- and moderate-income neighborhoods rather than wealthy ones. Possible reasons for this include high land costs in upper-income neighborhoods or city/county intent to provide better quality housing in poor neighborhoods (Cummings and DiPasquale 1999). Regardless of the reason, it poses a challenge as an anti-displacement strategy unless the credits are used before property values begin to rise.

Timing Considerations

While LIHTC can be used to build affordable rental units in gentrified or non-gentrified neighborhoods, the evidence points to more development in non-gentrified neighborhoods, for the reasons mentioned above. Therefore, LIHTC may be a strategy better implemented in neighborhoods not (yet) experiencing significant gentrification pressures.

Split-Rate Taxes

Split-rate taxes, also know as two-tiered property tax reform, differentiate property taxes into a lower tax rate for buildings and a higher tax rate for land. The objective is to encourage the improvement and renovation of buildings while creating a disincentive for land speculation and vacant buildings. Flat-rate property taxes ultimately penalize building improvements when assessments raise the assessed value of the overall property.

This strategy does not directly subsidize new affordable housing for purchase or rent, but it does provide an incentive for speculators to release vacant property that could be used to build affordable housing. This is particularly important for cities such as Washington, D.C., that have a housing shortage and a high number of vacant and abandoned properties (Washington Regional Network for Livable Communities 2003). Split-rate taxes also encourage property owners, including low- to moderate-income homeowners, to improve their property without the risk of an overall tax increase. In one state that implemented the split-rate tax, 85 percent of homeowners paid less in taxes than they did with the traditional flat-rate approach (Hartzok 1997).

Anticipated Outcomes

Beyond the benefits of creating incentives to improve properties and reduce vacant lots, the split-rate tax is relatively simple to implement. There are low administrative costs and it is market driven, unlike other inspection programs intended to deter vacant and abandoned property (Washington Regional Network for Livable Communities 2003).

Pennsylvania is the leading example of implementing the split-rate tax. Fifteen cities in the state passed split-rate legislation, two as early as 1918, with some having a tax spread as great as 19 to one and others having a tax spread of three to one. Some credit Pittsburgh's successful downtown development to the split-rate tax, even while its major steel industry declined. Harrisburg, another city that has successfully implemented the split-rate tax, reported a decrease in vacant structures from 4,200 in 1982 to fewer than 500 in the late 1990s (Hartzok 1997).

Implementation Challenges

Similar to the other two strategies discussed so far, passing legislation to install a split-rate tax is a challenge—if only to educate the public on how it works and its implications. One suggestion when first implementing the split-rate tax is to maintain a neutral tax base (i.e., do not increase overall revenues) and gradually differentiate the two tax rates over time (Hartzok 1997).

Timing Considerations

Because the split-rate tax system is an incentive to convert abandoned properties into viable units and improve occupied units rather than a method to subsidize development directly, it can be implemented at any stage of gentrification. The greatest hurdle is lobbying officials to pass the appropriate legislation.

Tax Increment Financing

Similar to the split-rate tax, tax increment financing (TIF), also known as tax allocation financing, is not a direct method of creating new affordable housing. Instead, TIF is a tool used to subsidize an economic development project to stimulate or retain business and jobs.

For a city or county to use TIF, a distinct geographic area is designated as a TIF area for a specific period of time. It is managed by a redevelopment agency, which is responsible for financing the project(s). The economic development projects within the TIF area could include attracting businesses by building an office building or financing cosmetic improvements to a commercial strip to make it attractive to shoppers. Tax rates are assessed in the designated area before the economic plan is implemented, and the redevelopment agency finances bonds backed by the anticipated increase in

property values to subsidize the development.

While TIFs are used to finance economic development projects, municipalities can attach other requirements to TIF legislation. For instance, some locales require a certain percentage of TIF revenue to be dedicated to building affordable housing for low- and moderate-income individuals, building new infrastructure, or providing social services (Hitchcock 1995). Depending on the jurisdiction, the affordable housing or services can be provided in the TIF-designated area or outside of it.

Anticipated Outcomes

TIF is a creative way to finance new development, and it provides a good way to leverage additional capital. Also, the tax rate remains constant during the lifetime of the TIF. Consequently, existing residential and commercial property owners do not experience an increase in their taxes during the TIF period. The increased tax revenue stems from the new commercial or residential developments.

Implementation Challenges

TIFs depend on the economic development projects to increase the assessed value of an area, which in turn, pays for the new economic development projects. However, jurisdictions face the risk that the assessed area's value will not rise, leading to a revenue shortfall to pay back the financing. Another challenge is that the new businesses attracted by TIFs assisting in paying the financing might go out of business, again leaving the jurisdiction in financial trouble. It can also be a challenge to raise capital or finance bonds for the economic development projects because there is often no existing revenue beforehand.

All these challenges can be great, and experienced financing authorities need to be prepared to overcome them by finding alternative funding sources and attracting new businesses. But in regards to building affordable housing, it might be in the best interest of housing policymakers and housing advocates to lobby to amend TIF legislation to siphon some generated revenue into affordable housing development.

Timing Considerations

Because TIFs are not specifically designed to develop affordable housing, tapping into TIF revenue depends more on whether the TIF area is generating revenue rather than the stage of gentrification. Affordable housing advocates can lobby city officials and the redevelopment authority for an allocation regardless of whether gentrification and displacement is a problem. However, advocates may have a better argument for access to the resources if they can convince the city that gentrification and displacement may occur due to TIF-financed economic development.

STRATEGIES TO RETAIN AFFORDABLE HOUSING

Retention of affordable housing refers to efforts to maintain existing, affordable units in order to reduce resident displacement and to ensure future availability of such housing in gentrifying areas. As a general approach, retention is less expensive than affordable housing production—it is often more cost-effective to keep housing that exists than to build anew.

We present a number of retention strategies in this section. The strategies involve private-market and publicly subsidized rental housing, and privately owned housing. While the strategies differ in many regards, they also share some aspects. Effective community organizing is necessary across the strategies. Whether they involve the enforcement of existing laws or lobbying property owners or government officials, most of the retention strategies will not succeed in reducing displacement if the people affected by the possible housing loss are not organized and motivated to act on their own behalf.

The strategies also involve city, state, or federal regulations in some way. Where laws related to the strategies already exist, the focus of action will be on implementation. Where the laws do not exist, efforts can focus on lobbying legislators on the need for supportive laws. Either way, the retention strategies require knowledge of related laws and how they are implemented locally. For this reason, and for others included below, it is helpful for tenant groups and community-based organizations to work together closely.

The literature on the retention strategies does not explicitly address strategy implementation relative to the stage of gentrification. However, it is clear that with most of these strategies, waiting until gentrification has taken hold in a neighborhood could pose greater challenges for achieving successful outcomes. The earlier retention efforts begin, the better.

Code Enforcement

Affordable rental housing can be lost through attrition due to lack of sufficient maintenance as properties become dilapidated. Code enforcement, as a strategy to retain affordable housing, refers to efforts of residents and advocacy groups to pressure city agencies to enforce the appropriate codes. Through enforcement, a

property that is in a state of disrepair can be improved and, depending on the way in which enforcement occurs, remain affordable. Enforcement can focus on building, health, fire, or other safety codes. There is the risk, however, that code enforcement could lead to the loss of affordable housing if a building is condemned or sold.

City agencies can conduct code inspections on a regular cycle, in response to complaints, or both. As a strategy, a code enforcement process begins with tenants, or a group acting on their behalf, filing a complaint with the appropriate city agency. If any violations are found during an inspection, the agency notifies the property owner of the violation and requires the owner to make the necessary repairs within a specified period of time. If the landlord does not make the required repairs in a timely manner, she or he can be issued fines, which become property liens if not paid. An uncooperative landlord can be criminally prosecuted. If code violations are severe, a property can be condemned quickly (PolicyLink 2003a).

Tenants can argue for rent rollbacks or rent abatements once violations are cited. In some jurisdictions, tenants are allowed to deduct the cost of repairs from their rent if they pay for the work themselves. Such a "repair and deduct" program requires authorizing legislation. Tenants also can engage in a rent strike, where this is allowed, as long as it will not serve as reason for eviction (PolicyLink 2003a; Washington Regional Network 2001).

Anticipated Outcomes

Code enforcement can result in beneficial or detrimental outcomes for tenants, and the outcome cannot reliably be predicted. Enforcement can motivate a landlord to improve property management and maintenance. It can also motivate a landlord to increase rent to cover the costs of required improvements, possibly displacing lower-income tenants. Even if rents do not increase, tenants might be displaced from a property while repairs are made, if the necessary building rehabilitation is extensive. In some cases, code enforcement could result in the landlord agreeing to sell the property to tenants or to a nonprofit organization, which would better ensure longer-term affordability. In gentrifying areas, such a change in ownership can slow gentrification-related displacement and help build tenant wealth (PolicyLink 2003a).

A city's code enforcement practices, and the location and condition of the neighborhood in which a property is located, can affect the outcome of this strategy. If a city is "over-enforcing" codes (i.e., proactively and aggressively citing landlords for violations), the enforcement might work against tenants. In gentrifying areas, an agency might over-enforce to further neighborhood revitalization and increase displacement pressures on lower-income households (Rivlin 2002). If codes are under-enforced,

however, tenants can file complaints of violations and work with the agency to use the enforcement process to the tenants' benefit. For example, the government can negotiate improvements with the property owner with terms that will maintain the property's affordability over time (PolicyLink 2003a).

Implementation Challenges

There are a number of challenges to the successful implementation of code enforcement as a retention strategy. First, if city agencies do not impose stringent penalties for violations, early enforcement likely will be ineffective. A landlord might prefer not to make the required changes and pay a low fine than go to the trouble of responding to what amounts to a slap on the wrist (Washington Regional Network 2001).

As mentioned, code enforcement could result in the condemnation of the building and eviction of tenants. It might also make a property attractive to private developers, which could lead to displacement if government seizes the property due to violations and turns it over to a developer. Unless there are programs in place requiring the retention of the units as affordable housing or the inclusion of affordable units in new or rehabilitated housing, the units could be lost to lower-income households (PolicyLink 2003a).

In many instances, it is likely that the building in question is in poor condition and even in debt. In such cases, it would be difficult for tenants to assume ownership. To become owners and retain the property as decent affordable housing, they would need to access affordable financing and provide effective management. The local government would need to commit to supporting tenant ownership of buildings financially through grants and loans with favorable terms. The difficulties gathering sufficient financial, technical, and managerial resources to support tenant ownership over time can be significant (PolicyLink 2003a).

Use of this strategy relies to a great extent on government agencies' willingness to act in a manner beneficial to tenants. The degree to which agencies enforce codes with the tenants' interests in mind can determine the outcome. The literature on code enforcement suggests that it is best if tenants work with a community-based organization if they are interested in using this strategy as an anti-displacement tool. The tenants will need legal assistance, regardless of their goal, and some leverage to influence the enforcement process. If their goal is to acquire ownership of the building, tenants will need assistance with accessing finance and implementing sound management and maintenance practices (PolicyLink 2003a).

Timing Considerations

Code enforcement can be used early in the gentrification process or later. Used before property values begin increasing rapidly, code enforcement might more easily lead to improvements that will benefit incumbent lower-income residents. Once property values begin rising, however, landlords have increased incentives to make improvements and charge higher rents to capture the increased revenue potential or to sell the property to a developer, who likely would renovate the housing as higher-cost units.

Because of the need to work with a community-based organization and to develop a relationship with the enforcing agency, as well as the risk the strategy involves if used in a later stage of gentrification, this strategy is probably best used early. However, if the participating organization and tenants already have a relationship with city agencies, using code enforcement during later stages of gentrification might also be effective.

Rent Control

Rent control, or rent stabilization, is intended to "protect tenants in privately owned residential properties from excessive rent increases by mandating reasonable and gradual rent increases, while at the same time ensuring that landlords receive a fair return on their investment" (PolicyLink 2003c). As a strategy to maintain affordability, rent control developed in a context of a diminishing stock of affordable units, rent increases outpacing wage increases, and increased capacity among tenant organizations (Keating and Kahn 2001). The strategy was most popular between the late 1960s and the early 1980s. By the mid- to late 1980s, the anti-regulatory environment helped weaken rent control laws (Keating and Kahn 2001; PolicyLink 2003c). At present, there is increasing attention given to rent control strategies as a way to address gentrification-related displacement. For cities that have rent control laws, the focus of activity is on maintaining them. The number of municipalities with rent control laws has dropped from a high of 175 to approximately 140 (PolicyLink 2003c). Maintaining rent control is a response to actions of others to curtail the laws, rather than a proactive tool used for affordable housing retention (Keating and Kahn 2001).

Rent control laws specify the types of buildings covered and exempted, the amount of rent increase allowed annually (based on a set percentage increase or in relation to the Consumer Price Index), and a maximum rent cap. Laws can also stipulate that the landlord must be in compliance with building codes and cannot reduce existing services to increase profit (PolicyLink 2003c).

To ensure housing covered by rent control remains in good condition, many laws allow landlords to charge tenants capital improvement surcharges. Any surcharge must be filed with the local administering

body. Surcharges are meant to cover major repairs and necessary improvements, not regular maintenance and incidental repairs. Many laws also include a procedure for landlords to claim hardship, or less than a fair return, so that they are able to receive a fair return on their investment (PolicyLink 2003c).

The main criticism of rent control is that it denies the landlord a fair return by limiting rent revenue. This limit, in turn, it is argued, impedes the landlord's ability to provide decent housing at low rent on the private market. Rent control is considered to interfere with owners' property rights and with the free market such that it can reduce the number of affordable units available by providing incentives to owners to allow properties to deteriorate, and ultimately to abandon the housing rather than maintain it on a constrained rental income (Struyk 1991). Other criticisms include discouragement of new housing construction because new units would fall under rent control laws; shifts of property tax burden to non rent-controlled properties; and the lack of focus on low-income households by attaching rent control to units rather than tenants. Rent control programs developed since the 1970s are credited with being less restrictive than previous approaches. In particular, the laws allow for annual rent increases tied to the rate of inflation, the exemption of new rental units from rent control, and vacancy decontrol—increasing rent to or near market rates upon unit turnover before returning the unit to rent control (Struyk 1991).

Supporters of rent control offer counterarguments. In response to the criticism of rent control's interference with the property rights of private housing owners, supporters point out that changes to rent control laws include mechanisms to protect a landlord's return on investment. To arguments that rent control leads to deterioration of affordable rental properties because of the reduction in possible rental income to the landlord, supporters argue that there are other major causes of housing deterioration related to urban economic decline. The lack of high rates of deterioration and abandonment of rent-controlled housing in communities with rent control laws suggests there is no direct correlation between the laws and housing loss. The criticism that rent control is inefficient because it is not targeted to low-income households is addressed by pointing out that, overall, the majority of renters are low- to moderate-income. And, other housing subsidies, such as the mortgage interest deduction, are not strictly targeted to households with lower income levels either, benefiting wealthy homeowners as well as those with moderate means (PolicyLink 2003c).

Anticipated Outcomes

If rent control laws are maintained, some units will remain affordable. Laws that

include vacancy decontrol will reduce the number of affordable units over time, however, and permanent vacancy decontrol will do so more rapidly. Permanent rent control removes units from rent control upon turnover, in contrast to temporary removal to increase the unit rent level. Rent control with decontrol provisions will slow the loss of affordable rental housing units but will not retain the units in the long term (Keating and Kahn 2001; PolicyLink 2003c).

Implementation Challenges

Rent control as a tool will involve communities advocating for the establishment of rent control laws, maintaining the laws, or enforcing them. It is not a tool that can be implemented directly by residents or community groups themselves (PolicyLink 2003c). In some states, state legislatures have preempted local governments' right to enact rent laws, so any change to or establishment of rent control laws would have to occur at the state level—this is true in Massachusetts and Washington (Keating and Kahn 2001). In such circumstances, the possibility of passing new rent control laws is slim and would be a long-term strategy at best.

To prevent a weakening of rent control laws, rent control advocates need to be familiar with the arguments for and against rent control and be capable of making the counterarguments persuasively should the laws come up for review and possible revision. Administration and enforcement of rent control law resides with a municipal board or office. Tenants should make sure that there is tenant representation on the administrative body (PolicyLink 2003c).

One problem with rent control laws can be vacancy decontrol provisions, whereby rents on vacated units are allowed to rise above the regular annual increase. Some ordinances set a percent limit on the amount of increase after vacancy, while others allow landlords to increase the unit's rent to the market rent level before coming back into rent control. The latter approach can lead to a building falling out of the affordable housing stock one unit at a time, even as it remains under rent control. Some places opt for permanent vacancy decontrol provisions, which also reduce the number of affordable units. Another problem with decontrol is that it increases disparities in rent among residents in the same building, which can work against tenant unity (Keating and Kahn 2001; PolicyLink 2003c).

Tenants and rent control advocates should press for establishing anti-eviction protection if such protection is not included in current laws. Anti-eviction provisions, which specify conditions for eviction, are especially important to tenants' well-being where there are vacancy decontrol provisions and where a city does not have strong eviction protection laws in place (PolicyLink 2003c).

Timing Considerations

The stronger the housing market, the more incentive landlords have to lobby for

weakened rent control laws. Landlords stand to increase revenues in gentrifying areas and can argue that the increasing rent gap creates financial hardship for them. To maintain the rent control laws that already exist, tenants and community-based organizations and advocates need to know if the laws will be brought up for consideration by the local government. If review does occur and neighborhoods are experiencing gentrifying pressures, those working to maintain the laws need to express their arguments and lobby effectively.

There is growing interest in rent control laws again as a way to retain affordable housing units, due to the tight housing markets many cities have experienced. It is unclear at this time if there is the political support to pass new rent control laws.

Preservation of Federally Subsidized Affordable Housing

Since 1965, the federal government has provided two types of subsidies to private owners of multifamily housing to produce rental housing for low-income households—the Section 236 mortgage program and the project-based Section 8 subsidy program. Affordable housing units subsidized by these programs can be lost if landlords convert properties to private-market housing through prepayment of a subsidized Section 236 mortgage or nonrenewal of a Section 8 project-based housing contract. Because most pressure to convert subsidized housing to private-market housing occurs in gentrifying areas, preservation will help ensure the future presence of lower-income households in an area as housing costs rise.

Section 236 and Prepayment. A Section 236 mortgage provides owners of multifamily properties insured loans with subsidized interest rates in exchange for an agreement to lease units at HUD-approved rents to eligible low-income tenants. The lender receives a monthly interest rate reduction payment (IRP) from the federal government, which allows the lender to offer a mortgage with an effective interest rate of one percent. The borrower sets rent for tenants at an amount needed to pay the debt service on the one percent mortgage. The IRP amount received from the government by the lender covers the difference between the actual debt service cost of the mortgage and the monthly debt payment received from the borrower (Achtenberg 2002).

Although the program no longer offers new mortgages, buildings already receiving the Section 236 mortgages can continue receiving the subsidy. The restrictions on Section 236 properties remain in place for the term of the mortgage. Since 1996, however, owners may be allowed to prepay the subsidized mortgage after 20 years. Prepayment releases owners from the rental restrictions, allowing them to increase

rents to market levels (Achtenberg 2002; PolicyLink 2003b).

Project-Based Section 8 and Opting Out. The second type of federal subsidy is project-based Section 8 assistance. This program offers rent subsidies to owners that cover the difference between actual unit rent and rent collected from tenants whose payments are limited to 30 percent of their income. The subsidies can cover all or a portion of the units in a housing development. Rental restrictions on the owners of Section 8 project-based housing last as long as the subsidy contract is in effect. Contracts have a term between 5 and 30 years, though most are 20-year terms. If an owner decides to convert a property to market-rate housing by allowing the contract to expire, it is referred to as "opting out" (PolicyLink 2003b).

Prepayments and opt-outs began in the mid-1980s,[1] but have become a more serious concern since 1995 after Congress defunded the primary programs for supporting subsidizing affordable housing. At local levels, strong real estate markets in many cities have provided incentives to owners to pre-pay or opt out of their subsidies in order to charge higher rents and function with fewer regulations (PolicyLink 2003b).

Community organizing is the primary tool that tenants and community-based organizations have for addressing the problem of expiring use. If tenants are organized and conduct an effective campaign, they might influence a development owner's decision regarding Section 236 or project-based Section 8 participation. The groundwork for action should begin well before a property reaches its expiration date. Tenants and involved organizations need to gather information on the property to decide if it is at risk of expiring from the affordable housing stock. Tenants will need to develop a plan of action, including identification of their goal. Do they want the owner to renew participation in the program or sell to the tenants or a nonprofit organization? Does the information on the property and owner suggest that persuasion is the best approach, or should pressure or even litigation be considered? What will the tenants do in the event that their goal is not met and the housing falls out of the affordable stock? (PolicyLink 2003b).

Renewal. If tenants seek contract renewal, they can attempt to influence the length of the new agreement. Renewal can occur for a short period of time, as short as one to five years, so it might not address longer-term affordability concerns. There are federal incentives for owners to renew their contracts or restructure mortgages so that the properties remain affordable to lower-income households, including the Mark-to-Market program (PolicyLink 2003b). Congress passed the Multifamily Assisted Housing Reform and Affordability Act (MAHRA) in 1997 to address expiring use of Section 8 project-based properties that charge rent *above* the market rate. The legislation, known as Mark-to-Market, allows

subsidy costs for a property to be reduced so that the rents are in line with local market levels (Smith 1999). The owner restructures the HUD contract so that the rent on the subsidized units is decreased to the market value. In order for the property to remain financially viable, the property's debt is restructured or the owner receives partial debt forgiveness. In some instances, project-based subsidies are converted to tenant-based vouchers (Achtenberg 2002; National Housing Law Project 2002c).

HUD issued the Emergency Initiative to Preserve Below-Market Project-Based Section 8 Multifamily Housing Stock in 1999 to preserve subsidized housing that rents *lower* than the area market rent levels. Known as Mark-Up-to-Market, this initiative serves to increase rent revenue and reduce the incentives for landlords to opt out of federal subsidies. The renegotiated contracts under Mark-Up-to-Market last at least five years and allow for annual cost adjustments in rents (Achtenberg 2002; National Housing Law Project 2002c).

IRP Decoupling is a way to extend the interest rate subsidy on Section 236 mortgages. Owners are allowed to prepay their mortgage and refinance it or to secure financing for building rehabilitation. They can continue the IRP subsidy if they also extend the term of affordability. Under IRP Decoupling, a building that has had a Section 236 mortgage also can be bought by approved owners who can receive the subsidy if they extend the use restrictions (Achtenberg 2002).

Purchase. If tenants or a nonprofit organization want to purchase an expiring use property, the same considerations come into play as with code enforcement purchases: capacity of the tenant organization, including its financial resources; capacity of the nonprofit organization; inclination of the owner to sell; local government support; and the condition of the property.

State and local governments also can take steps to preserve the federally subsidized affordable housing stock in gentrifying areas. They can work through regulatory or programmatic means to preserve affordable housing, including passing statutes or ordinances granting local government, a nonprofit organization, or tenants the right of first refusal before an owner converts a property to market rent; "right to make an offer" ordinances (an exclusive window for making a purchase offer); requiring notice provisions of impending conversion so that owners must alert tenants to the change in a timely fashion; using rent control laws in ways to support lower-income households; and passing laws that require owners to pay tenant relocation costs in the event of conversion (Achtenberg 2002; National Housing Law Project 2002a; Nenno 1991).

Anticipated Outcomes

Possible outcomes of strategies to preserve federally subsidized affordable housing will depend upon a number of factors, including tenant goals, the interests of the owners, and the housing market context. An owner considering prepaying the mortgage or opting out might be persuaded to renew their contract or continue mortgage payment. If an owner renews, tenants should encourage as long a renewal term as possible. If an owner wants to convert a property to market-rate housing, tenants can litigate if there are restrictions precluding conversion. A third-party nonprofit organization can purchase the property, which could ensure longer-term affordability (PolicyLink 2003b). If a conversion moves forward, tenants could seek some protection through Enhanced Housing Vouchers. Congress first authorized and funded these vouchers to subsidize tenants in cases of prepayment (1996) and opt-outs (1999) so that tenants could remain in place after conversion. Enhanced Vouchers can exceed the value of regular, tenant-based Housing Choice Vouchers but revert to a regular voucher if the tenant moves from the property (National Housing Law Project 2002b; PolicyLink 2003b).

Implementation Challenges

Tenants and community-based organizations need to understand the federal incentive programs and be able to gather the information to determine the likelihood of a building falling under expiring use. As with code enforcement, tenants need to be well organized and have a plan of action, with a contingency plan in the event their first choice of outcomes does not occur. Developing strong relationships between tenants and community-based organizations is important.

Timing Considerations

Timing for preservation strategies is affected by the date an opt-out could occur, and a property owner's decision will be influenced at least in part by the immediate market context in which the building is located. Because of the information that tenants and any community-based organization will need to obtain, and the planning that will be necessary in order to influence the opt-out decision, the groundwork for preservation efforts should begin as soon as possible.

Tax Relief & Assistance

While the previous strategies focus on retaining affordable rental housing or acquiring ownership of rental properties, tax relief and assistance can help low-income homeowners. Local governments can assist lower-income homeowners to maintain housing affordability through tax and finance assistance. Tax relief policies tend to benefit elderly homeowners or non-elderly lower-income residents who have lived in their home for at least a specified minimum number of years. Tax deferral legislation allows elderly lower-income homeowners to

defer payment of property tax increases that occur due to gentrification-related appreciation, until they sell their home. At that point, the deferred tax payments can be paid from the profit on the sale. Other assistance to homeowners can include low-interest loans and grants to be used for maintenance (Kennedy and Leonard 2001; Washington Regional Network 2001).

Anticipated Outcomes

Deferral of increased property taxes can reduce the financial barrier longer-term homeowners might face when their neighborhood gentrifies. If their monthly house costs remain largely unchanged, they should be able to stay in their homes even though surrounding housing costs increase. Once they sell their home, they will be able to cover the deferred tax payments from sale profits (Kennedy and Leonard 2001).

Elderly homeowners in particular often do not have sufficient income to maintain their homes well. Providing financial assistance for maintenance and repair costs can help owners maintain upkeep in their properties, thereby extending the time they can live in their homes (Washington Regional Network 2001).

Implementation Challenges

The primary challenge to implementation of tax deferment policies is garnering local government support for such assistance to lower-income households. Such a program is targeted and clearly benefits households hurt by property value increases. Low-interest loan or grant programs for housing upkeep could be offered by a city government, a community-based organization, or a financial institution without enabling legislation or other barrier that could delay implementation.

Timing Considerations

Tax deferment policies and low cost loans or grants can be implemented at any stage of gentrification. It might prove easier to pass the tax deferment legislation before property taxes increase so as not to have to grandfather the previous, lower tax rates.

section 3

STRATEGIES TO BUILD ASSETS

Asset-building strategies are intended to assist low-income individuals accumulate wealth through programs that help increase savings, purchase a home, or start a business. Such strategies have grown in popularity in part due to changes in welfare policy during the 1990s. Changes included an increase in the asset limit so that recipients of income supports could increase their savings to a higher level without risk of losing a portion or all of their subsidy (Sherraden 1991). Policymakers from across the political spectrum have shown support for asset-building programs because they are designed to aid low- and moderate-income individuals move to economic self-sufficiency. Asset-building programs have the potential to reduce residential displacement in gentrifying neighborhoods if participants' increases in wealth allow them to stay in place as housing costs rise (Weber and Smith 2001).

In this section, we discuss the following six asset-building strategies: individual development accounts (IDAs), homeownership education and counseling, limited equity housing co-ops (LEHCs), community land trusts (CLTs), location efficient mortgages (LEMs), and the Section 8 homeownership program. Although these strategies differ in program implementation and structure, they all aim to increase the assets of low-income households vulnerable to neighborhood economic cycles. These strategies focus both on place (affordable housing and land use) and people (job training and postsecondary education), and thus have the potential to increase resident stability and to promote equitable development in gentrifying communities. The programs require coordination among many key players such as nonprofits, community members, participants, financial institutions, and government agencies.

Overall, asset-building strategies are more likely to prove effective if they are implemented during earlier stages of gentrification, in part due to the length of time it can take individuals to accumulate sufficient assets with which to pursue their goals. Asset-building strategies tend to require extensive preparation time, thus it can be to participants' advantage to engage them prior to significant strengthening of the local housing market.

Individual Development Accounts

Individual development accounts (IDAs) are matched savings accounts designed to help low-income and low-wealth families accumulate savings for long-term

investments, such as homeownership, job training, and small business enterprises (Northland Institute 2001). Unlike individual retirement accounts (IRAs) or 401(k) plans, IDAs are designed for the poor because they provide subsidies through matched savings rather than tax breaks. The majority of subsidies for asset accumulation tend to favor the wealthy because they require existing assets (Schreiner et al. 2001). IDA programs provide lower-income households an opportunity to accumulate wealth without requiring existing wealth.

IDA participants must first pass a means test before beginning to deposit post-tax dollars into insured, interest-bearing savings accounts, which are typically held at local financial institutions. Withdrawals of IDA deposits are matched if they are used to purchase a home, pay for postsecondary education, or finance self-employment. Third-party funders match the savings of IDA participants, who usually save regularly over a period of up to five years (Schreiner et al. 2001). Financial institutions, state and local governments, employers, and churches provide the matching funds at a ratio ranging from 1:1 to 4:1 (Northland Institute 2001).

Financial institutions have incentives to offer IDA accounts. Banks are able to meet some of their requirements under the Community Reinvestment Act by holding IDA accounts in a community-based IDA initiative. In addition, some states allocate tax credits to corporations and other contributors to IDA accounts of participants below the poverty line (United Way of Connecticut 2002). Nonprofit community organizations most often manage IDA programs, providing administrative support and money management training to participants, who receive monthly statements from the bank and the IDA program.

Anticipated Outcomes

IDA programs train participants in budgeting and money management and enhance their earning capability (United Way of Connecticut 2002). The American Dream Demonstration (ADD) has been evaluating IDAs since July 1997. ADD registered 2,378 participants in 14 programs across the United States. The average participant made deposits in seven of 12 months with monthly deposits averaging $25.42 per participant (Schreiner et al. 2001).

Individual assets can benefit the neighborhood as well as the individual. The individual benefits of an asset such as a home or an IDA can spill over to produce neighborhood benefits that include increased citizen participation, improved infrastructure, and expanded commercial business as participants acquire wealth that can then be spent in the community. This increased local spending might fuel job growth or attract more businesses to locate in the community. Community-based organizations can ensure the benefits of

asset-building programs remain in the community by implementing strategies aimed at retaining asset holders, providing reinvestment opportunities, and tracking local purchasing power (Weber and Smith 2001).

Implementation Challenges

IDAs can be costly. IDA program expenses without matches were roughly $70 per participant each month. Total outlays in IDAs were approximately $6 per $1 of net deposits ($1 savings, $2 match, and $3 program expense). Costs in ADD fell as programs grew and developed (Schreiner et al. 2001). Nonetheless, the question arises whether it would be better to give IDA participants $70 rather than help them save $25 each month, though some observers point to the program's encouragement of savings as a key element of the model (Sherraden 1991).

Before implementing an IDA program, organizations must decide how the individual deposits will be made, how the matching calculations will be performed and by whom, and how the number of IDA participants will affect program administration. A successful program requires coordination among IDA organization staff, the financial institution, and the participant (Clancy 1996). Organizations establishing an IDA program need to consider as well the demand for IDAs within the targeted population, and develop a program monitoring and evaluation plan (Clancy 1996; Weber and Smith 2001).

Davy (2002) raises concerns regarding the sustainability of IDA programs. Currently, only one in 10,000 persons who qualify for IDAs actually saves in an IDA, and resources are already limited. Many in the IDA field contend that reducing the cost of delivering IDAs would free up resources that could potentially create a greater number of accounts. To decrease costs, some have proposed offering "low touch" IDA programs, which reduce the intensity of support services and the amount of staff contact with account holders. Others argue that the supportive services that "high touch" programs provide are necessary to the success of the account holder. Nonetheless, IDA programs face the challenge of raising enough money to continue serving account holders.

Timing Considerations

IDAs can be implemented at any stage of gentrification. However, IDAs might be more consequential if the program is established at an earlier stage of gentrification before housing costs increase to the point that that program participants are unable to invest in their community.

Homeownership and Education Counseling

The homeownership rate in the United States has risen rapidly over the last decade, yet large gaps exist in the

homeownership rates for many working families, low-income families, minorities, and urban dwellers. Homeownership can provide families the opportunity to develop wealth through home equity, assuming a family can maintain its mortgage payment. It can benefit the community by increasing neighborhood stability and civic involvement (Rohe and Stewart 1996).

The inability of families to save for a downpayment has been cited as the primary barrier to homeownership. In response, mortgage investors and lenders and private mortgage insurers created low downpayment home loan programs (National Housing Conference 2001). Most low downpayment programs and affordable lending initiatives now require some form of homebuyer education or counseling (McCarthy and Quercia 2000).

Homeownership counseling is considered an effective approach to increasing homeownership among low-income households (National Housing Conference 2001). Homeownership education and counseling (HEC) is considered instrumental in expanding the homeownership market by reaching potential buyers in underserved communities and by helping homeowners remain in their homes through minimizing default risk (McCarthy and Quercia 2000).

HEC began in 1968 when a housing counseling program was included in the original legislation that created the Department of Housing and Urban Development (HUD). In 1974, HUD was authorized to directly fund HEC programs through Section 801 of the Housing and Community Development Act. Support has increased over the years. In 1999, HUD allocated $18 million to housing counseling agencies (McCarthy and Quercia 2000).

There is no national standard for HEC certification. However, HUD does certify HEC providers, which enables them to receive training and technical assistance from HUD and become eligible to compete for grants. Although HUD has funded the majority of HEC programs in the past, it never intended to cover all HEC costs, but rather to establish HEC programs so they could attract other sources of funding (McCarthy and Quercia 2000). State and local housing agencies usually work with local nonprofits to provide HEC programs. In states that do not have an extensive nonprofit network, state and local housing agencies usually institute their own HEC programs.

The four types of homeownership counseling are homeownership education, pre-purchase counseling, post-purchase counseling, and foreclosure prevention. Homeownership education helps households determine their readiness to become homeowners, while pre-purchase counseling includes general education and intense one-on-one counseling. Pre-

purchase counseling assists potential homeowners to establish and improve their creditworthiness, to set and achieve income goals, and to save for financing down payment and closing costs.

Post-purchase counseling includes default-prevention counseling, designed to help borrowers with mortgage payment problems. In addition, post-purchase counseling includes education about maintenance skills and budgeting (National Housing Conference 2001). Foreclosure prevention helps the borrower with financial planning and assistance when developing a debt work out plan that both the lender and borrower find acceptable.

Anticipated Outcomes

HEC expands homeownership opportunities for low-income households by providing valuable information and helping households improve their financial capacity. Compared to borrowers who do not undergo pre-purchase counseling, HEC participants are 13 percent less likely to become delinquent on their mortgages (Freddie Mac 2000).

Homeowners, it is argued, have an economic and a use interest in their properties because they expect to build wealth through property appreciation and they benefit socially from their property. Research has shown that homeowners are more likely to maintain their properties at a higher standard than renters, and are likely to join community organizations (Rohe and Steward 1996).

Implementation Challenges

Not all HECs have proven successful, varying in quality and content, with some leading to poor loan performance (National Housing Conference 2001). The American Homeownership Education and Counseling Institute (AHECI) was founded in 1997 to address the need for program consistency (McCarthy and Quercia 2000). AHECI aims to establish national accreditation standards for providers of HEC, develop a core curriculum, establish the means for self-financing of HEC initiatives, and establish an informational clearinghouse for materials and methods (McCarthy and Quercia 2000). The American Homeowner Education and Counseling Institute (AHECTI), which is affiliated with AHECI, provides training, certification, and accreditation using AHECI products.

Rohe and Stewart (1996) note that increased homeownership in a community might lead to displacement and gentrification. They find that changes in homeownership have a positive and significant relationship to changes in property values. Communities with steady property appreciation tend to attract homeowners. Landlords in these communities are likely to sell rather than rent their properties, which means the community loses rental units that provide housing for low-income residents who may not be able to afford a home. In addition,

appreciating housing values may make homeownership unaffordable for those that have always lived within the community. Rohe and Stewart (1996) caution pushing homeownership on families with highly variable or flat income trajectories because they may not be able to afford their homes over the long run.

Timing Considerations

Though HECs can be implemented at any stage of gentrification, the programs are likely to be more effective during the early stages of gentrification when low-income residents are still able to purchase a home. HECs require potential homeowners to improve their creditworthiness, if necessary, and to save for downpayment and closing costs. It may take some time before a potential homeowner is prepared to purchase a home. Post-purchase counseling as part of HEC might help current homeowners avoid default and remain in their communities once property values begin to rise.

Limited-Equity Housing Co-ops (LEHCs)

LEHCs are business corporations in which residents share ownership of a building. LEHCs are different from traditional co-ops in that the purchase price of a share and the appreciation rate are limited to maintain affordability (PolicyLink 2003). The owner in an LEHC enjoys most rights connected with ownership, such as control over the property, housing stability, and the right to pass the property to heirs; however, the right to sell the unit at market price is restricted. This restriction in the resale price ensures that the co-op shares are affordable for the next low-income buyer (McCulloch 2001).

LEHCs can be new housing cooperatives, converted tenant-occupied buildings, sweat-equity cooperatives, or leasing cooperatives (PolicyLink 2003). The corporation can obtain a blanket mortgage to cover the initial costs of the property and members may obtain share loans to finance their own units. Many LEHCs require a subsidy, as with many low-income housing developments. LEHCs typically have a board of directors that makes decisions for the cooperative, with each member having one vote in the election of the board. The board of the LEHC is responsible for oversight, budget, finances, resales, evections, and committees.

Starting an LEHC requires the cooperation and assistance of many key players. Members of the community must be accepting of having an LEHC in their community. Some community residents might be advocates for LEHC (PolicyLink 2003). Sellers may offer longer than usual escrow periods, which are useful for providing extra time to pull together LEHC financing. Sellers can finance part or all of a sale and enter into a donated sale, which

lowers the cost to buyers. Government agencies can either help or hinder the creation of LEHCs because they are influential in obtaining financing and zoning changes. LEHC members must play an active role by participating in the governing and management of the LEHC. Developers need to be able to work with a large group of people and accept recommendations (PolicyLink 2003).

In addition to key players, there are key elements to the successful development of LEHCs in the face of gentrification pressures. Members should have a full understanding of their commitment, which includes accepting the equity limits and participating in running the LEHC. Community support and acceptance of the LEHC is crucial to its successful development. Developers should set aside time to educate neighbors and local community organizations about the LEHC. Support from local politicians and key public agencies is important for access to financing and zoning approvals. An LEHC requires various types of financing such as subsidies and blanket loans, which are provided by traditional lenders. Many local, state, and federal programs that provide some type of subsidy to other types of low-income housing developments also provide subsidies to LEHCs. The three different types of subsidies that are often used are interest subsidies, rental subsidies, and capital subsidies. A comprehensive neighborhood plan that calls for the creation of other LEHCs in addition to other types of housing for older and newer residents helps to reassure the community supports the LEHC (PolicyLink 2003).

Anticipated Outcomes

Cooperative properties benefit low-income people by enabling them to remain in their apartments as co-owners rather than be displaced because of rent increases. In addition to keeping neighborhoods affordable, some evidence suggests LEHCs foster community pride among residents and a sense of security and empowerment.

LEHCs serve to build equity, but place greater emphasis on retaining affordability because LEHCs restrict the owner's accumulation of equity. According to McCulloch (2001), the key value of LEHCs is making the majority of benefits of homeownership available to low-income people instead of encouraging wealth accumulation.

Implementation Challenges

If a rental property is converted to an LEHC, the LEHC may contribute to displacement as housing is removed from the rental housing stock (PolicyLink 2003). One way a community can address this concern is to ensure that current neighborhood residents have priority in becoming co-op owners. The implementation of an LEHC requires coordination among many key players. Accessing the financial subsidies needed to create an LEHC can pose serious challenges to implementation. To overcome

these challenges, a successful LEHC requires a group of dedicated people willing to devote much time to the development and operation of the co-op.

Timing Considerations

LEHCs are best implemented at the early stages of gentrification before property prices escalate greatly. Once property values increase, it might be more difficult to access the financial support. It is recommended that LEHC organizers work with nonprofit developers as early as possible to begin the development and financing process.

Community Land Trust (CLT)

In the 1960s, the founders of the Institute for Community Economics (ICE) designed the Community Land Trust model (CLT) "to encourage affordable resident ownership of housing and local control of land and other resources" (ICE 2003). CLTs make land available and housing affordable for residents who would otherwise not be able to afford them. Over the past three decades, CLTs have developed in urban and rural communities. A CLT is a private, nonprofit organization formed to acquire and retain land for the benefit of a community. Under a CLT, land is permanently held by the trust, and the occupants own the buildings. The housing becomes more affordable once the land costs are reduced (Peterson 1996). CLTs acquire vacant land and then develop housing, or acquire the land and buildings together (McCulloch 2001). CLTs often acquire city- or county-owned property from local governments or sometimes receive gifts from individuals, as tax-exempt organizations. However, most of the time they purchase property on the private market with funding from public sources.

CLTs typically are organized as membership corporations where members elect the boards of directors. There are two groups of voting members with one group composed of people who reside in CLT homes and the other group composed of community members. All CLT residents are members, but other residents in the community may become members as well.

Most CLTs assist people to become homeowners, although some CLT homes are rented. The CLT leases the underlying land to homeowners when it sells them a home. The lease is usually long-term (99 years) and renewable, which enables the residents and their descendents to use the land for as long as they live there. CLT homeowners are permitted to sell their homes, but the land lease stipulates that the home must be sold back to the CLT or to another low-income household at an affordable price (Peterson 1996).

Anticipated Outcomes

CLTs assist communities in decreasing absentee ownership, provide affordable

housing, encourage resident ownership, retain affordable housing for future residents, and help develop a strong foundation for community action. CLTs can alleviate the pressures in gentrifying neighborhoods stemming from increased rents by maintaining affordable housing for participating households. CLTs can also benefit an entire community by alleviating the negative effects of disinvestment in communities and absentee ownership (ICE 2003).

In 1984, one of the largest and most prominent CLTs was established in Burlington, Vermont, to produce and retain affordable housing for local residents. The Burlington Community Land Trust (BCLT) holds roughly 500 units of housing, which includes single-family homes, housing cooperatives, and condominiums (ICE 2003).

Implementation Challenges

According to McCulloch (2001), CLTs offer homeownership opportunities to low-income residents, but CLTs do not allow residents to accumulate the maximum equity possible from their property. Residents do build some equity through mortgage payments and through receiving a share of the home's appreciating value. However, resale formulas under CLTs attempt to balance retaining affordability for future buyers with offering the sellers a fair return on their investment. Formulas vary by CLT, but in general allow a seller to set a price that will return his or her original investment plus a specified percentage of the increased market value.

Timing Considerations

It would be best to establish the CLTs prior to gentrification so that the organization can afford to purchase properties at a reasonable price. The model may work in an already gentrifying area if the CLT acquires a city- or county-owned property at a reduced cost.

Location Efficient Mortgages

A location efficient mortgage (LEM) enables homebuyers interested in living in urban areas to increase the amount they borrow while making a smaller downpayment. LEMs are based on the idea that homeowners living in high-density areas with public transportation options will save money because they can shop at local stores and use public transit regularly, rather than drive to shopping areas and to work. The reduction in automobile-related expenses increases income that can then be directed toward mortgage payments. LEMs are intended to reduce urban sprawl and dependence on cars (NRDC 2001). Because they increase the amount of mortgage a homebuyer qualifies for, LEMs also can be used as an affordable housing tool.

LEMs are 15- to 30-year fixed-rate residential mortgages that require downpayments of at least three percent of the appraised value of the property and

have loan-to-value (LTV) ratios of 97 percent. The mortgages are available only for initial purchase, not for refinancing. LEM borrowers must participate in pre-purchase counseling on homeownership and location efficiency (Location Efficiency 2000).

The key difference between an LEM and a traditional mortgage is that transportation-related savings are taken into account. Transportation cost-savings are calculated by using land-use information, such as population density, public transit locations, and census information on car ownership. The lender calculates the difference in transportation costs between an urban household and its suburban counterpart, and then adds this dollar amount to the borrower's qualifying income (Location Efficiency 2000).

Anticipated Outcomes

LEMs can affect the amount of house one can buy or who can buy a house by increasing the percent of income considered available for mortgage payments. With assumed savings from reduced transportation costs, LEM underwriting shifts the standard from 28 to 39 percent of gross monthly income (NRDC 2001). For example, a household with gross monthly income of $2,000 would be assumed to have $500 available for monthly mortgage payments under the standard criteria, but $780 under the criteria used for LEMs. Proponents of LEMs claim urban sprawl will be restrained by making homes in location-efficient communities more affordable to low- and moderate-income borrowers (Blackman and Krupnick 2000). LEMs can be used to buy detached homes, condominiums, and townhomes. In 1999, Fannie Mae launched a $100 million pilot project to make LEMs available in a number of cities. They are now available in Chicago, Los Angeles, Portland, Orange County, San Francisco, and Seattle, and likely will become available in Philadelphia (NRDC 2001).

It should be noted that LEMs do not target any particular income level. In addition to increasing the purchase power of relatively lower-income households, the mortgages provide an incentive to higher-income households to move into urban communities, which might intensify gentrifying pressures.

Implementation Challenges

Supporters of LEMs claim that such loans will have a low default rate because homeowners who live in location-efficient areas will be able to transfer savings in transportation costs to their mortgage payments. Researchers examining this claim have raised questions about the expectation for lower default rates among LEM borrowers.

At the time of their study, Allen and Krupnick (2000) did not have access to

repayment histories for LEM borrowers. Instead they set out to study whether homeowners with conventional mortgages living in location efficient areas, therefore assumed to have lower transportation costs, had lower rates of default than homeowners with similar mortgages living in non location-efficient areas. After examining more than 8,000 mortgages that met their criteria, the researchers concluded that there was no correlation between location efficiency and a lower probability of mortgage default. Allen and Krupnick go on to say that offering LEMs would be similar to offering low downpayment mortgages to a random sample of borrowers, an approach that likely will lead to higher default rates. They conclude that from a policy perspective, the benefits of LEMs, increasing access to housing and controlling sprawl, need to be weighed against the costs of potentially higher default rates (Allen and Krupnick 2000). That said, LEMs are relatively new; studies are needed that look at actual LEM performance.

Timing Considerations

Location efficient mortgages will be more effective for lower-income households before housing prices appreciate. LEMs can be used once housing prices are high, though high costs will limit home-purchase options for lower-income households, even with the increase in mortgage amount.

Section 8 Homeownership Program

The Quality Housing and Work Responsibility Act, passed by Congress in 1998, included an option allowing the use of Section 8 housing vouchers (Housing Choice Vouchers) for payment of homeownership expenses. Voucher administrative entities can elect to offer the homeownership option to voucher-holders. The voucher can be used to cover monthly mortgage payments, utilities, major home repairs or maintenance, and condominium fees; it cannot be put toward downpayment or closing costs for home purchase, however (Federal Reserve Bank of New York 2002). The payment standards for the homeownership vouchers are the same as those for vouchers used to rent housing—vouchers cover the difference between 30 percent of the household income and the total housing payment, up to the designated payment standard (NHC 2001). Homeownership voucher payments can be made to the voucher holder or directly to the lender (CHAPA 2002).

To participate in the homeownership voucher option, families must be first-time homebuyers and meet the standard eligibility requirements for a voucher. At least one adult in the family must show full-time employment for at least one year, unless the household head qualifies as elderly or disabled. Also, the family must meet an income requirement equal to 2,000 hours of full-time employment at the federal minimum wage (currently equal to $10,300).

The income requirement does not count welfare payments toward a household's income. Participants must find a unit to buy that passes HUD's housing quality inspection and must arrange for their own financing (Federal Reserve Bank of New York 2002; HUD 2003). Participants are required to complete a HUD-approved homeownership counseling program; they have the option of attending post-purchase counseling if it is offered (CHAPA 2002).

Families with a homeownership voucher can receive assistance for 15 years on a mortgage with a 20-year or more term, or ten years if the mortgage term is less than 20 years (HUD 2003). If a family sells its property within ten years of purchase, or if it refinances the mortgage, the voucher agency is required to recapture a percentage of the voucher assistance (CHAPA 2002; Federal Reserve Bank of New York 2002).

Anticipated Outcomes

The use of vouchers to support homeownership has been described as an ideal way to help lower-income families buy a home in areas with low or otherwise declining landlord participation with the voucher rental program, or in areas with high rental prices relative to sales prices (Federal Reserve Bank of New York 2002).

HUD initially approved 14 demonstration sites to run the homeownership program. By October 2000, participants at five of the demonstration sites had closed on a home (NHC 2001). The program has been taken up by Housing Choice Voucher administrating entities located in almost every state, as well as in Washington, D.C., Puerto Rico, and the Virgin Islands. There have been more than 4,500 closings.[2]

Implementation Challenges

Results from the HUD funded study of the demonstration program will help identify successful implementation strategies as well as barriers. Challenges could include the ability of a family to find a home that passes HUD's housing quality inspections and to secure financing with favorable terms. Although families are required to participate in housing counseling, the process of buying a home can still be difficult. Both Fannie Mae and Freddie Mac work with the Section 8 Homeownership Program, which should reduce financing hurdles. The involvement of nonprofit organizations, with counseling, technical, or financing assistance, can help improve program outcomes. NeighborWorks has been active in a number of sites (NHC 2001).

Timing Considerations

The Section 8 Homeownership Program might work best if used during the early to mid-stages of gentrification. Participants would be more likely to find an affordable

home before home prices appreciate out of reach. The program could be used in areas considered gentrified if lower-priced properties in need of rehabilitation are still available.

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ENDNOTES

[1] In the late 1980s, federal laws prevented prepayment of Section 236 mortgages. Previously, owners were allowed to pre-pay the debt.

[2] The HUD.gov website offers an Excel spreadsheet with the number of closings per public housing authority. Entities other than PHAs can administer the program, and the data from PHAs likely is not up to date, per HUD's note on the spreadsheet itself: www.hud.gov/offices/pih/programs/hcv/homeownership. Accessed 2/21/06.