Alan Mallach

BUILDING A BETTER URBAN FUTURE: New Directions for Housing Policies in Weak Market Cities

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An abbreviated version of this full paper, *Building a Better Urban Future: New Directions for Housing Policies in Weak Market Cities*, can be downloaded or ordered from the National Housing Institute. The full version can be downloaded from www.nhi.org.

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INTRODUCTION

Changes in the American economy have brought both new risks and new opportunities to the nation's older cities. The revitalization of downtowns and urban neighborhoods has brought vibrant life to communities that were all but written off only a few years earlier. Many different elements have contributed to this change. Some efforts have been led by local government, and some by community institutions such as universities or hospitals. Some neighborhoods have been transformed by in-migration, while others have been rebuilt by the efforts of the residents themselves, mobilized by neighborhood organizations or community development corporations.

America's cities have not shared equally, however, in the economic gains of the past decade. While many cities have thrived, gaining new residents, companies and visitors, others have not. Those 'weak market cities'[1] continued to lose population, jobs and businesses into the new century. Some of these cities are located in regions that are themselves losing population and jobs, while others continue to decline even as their suburban neighbors grow. The challenges facing these cities are very different from those facing the cities that grew during the 1990's. For weak market cities, the threats are not a shortage of land or affordable housing, but continuing population loss and stagnant economies. It is the issues facing those cities that this paper addresses.

An important theme in the revival of many American cities has been the emergence of a new paradigm for urban revitalization that acknowledges the central role of the marketplace in driving the future of America's cities, defining new and creative roles for local government, nonprofit community development corporations (CDCs), and other stakeholders in responding to market opportunities, and harnessing the power of the marketplace for positive community change. While weak market cities face particular challenges in seeking to apply this paradigm, opportunities exist everywhere. Weak market cities must work harder, however, and work smarter, in order to capture these opportunities. Given their limited resources, and the size of the challenge, they must make every dollar count, and make sure every investment actively furthers their revitalization goals.

Housing investment lies at the heart of their future. While job growth, tourism, and other areas are all important to rebuilding a city's economy, no city can hope to thrive unless it becomes an attractive, desirable place to live. Better housing and neighborhoods of choice are not only valuable in themselves, but – as experience in many cities has shown – bring major investment in job-generating retail trade, services and entertainment in their wake. The decisions cities – not only their local officials, but their CDCs, local foundations, corporations, and other institutions – make to secure and invest housing resources are among the most important decisions they can make.

This paper is designed to help further this process by offering a model of how cities can build better futures through their housing policies, first identifying broad policy goals and principles to guide housing investment decisions, and then laying out specific strategies and programs that can be effective in building the local housing market, and creating neighborhoods of choice. While many of these strategies and approaches represent a significant break with the past practices of many local

[1] The concept of weak market cities is presented in Paul C. Brophy and Kim Burnett, *Building a New Framework for Community Development in Weak Market Cities*, prepared for the Community Development Partnerships' Network, 2003.

governments, funders and CDCs, none are completely new or untried. Many cities and CDCs have already begun to pursue these approaches, and we have highlighted a number of the more successful efforts. Many cities have not tried these programs, however, and few have assembled them into a comprehensive strategy for change.

We hope that local officials and CDCs will use this paper to assess how effectively their current strategies and priorities contribute toward the goal of revitalizing their cities and neighborhoods, and to identify and initiate new strategies and programs that might use resources more effectively and productively to further that goal. We hope that it will stimulate state agencies, lenders, and local foundations that provide resources for housing and community development in weak market cities to reflect on the ground rules by which such investments are being made, and develop new strategies and priorities for targeting their resources in the ways that are most likely to bring about sustained change in their communities. Finally, we hope that it will be used by decision-makers in both the legislative and executive branches of state government to frame creative and effective policies through which each state can better help rebuild its weak market cities.

There are few tasks more important and more necessary in American society today than the regeneration of cities, particularly those that have yet to experience the market-driven resurgence of their more fortunate counterparts. Recognizing the importance of this task, four different organizations concerned with the future of our cities – the Community Development Partnerships' Network, The Enterprise Foundation, Local Initiatives Support Corporation, and National Housing Institute – have joined forces to commission, publish, and disseminate this work. We are hopeful that it will be a significant contribution toward helping public officials, CDCs, funders, and all of the many stakeholders in our cities to carry out that task effectively.

CHAPTER 1

HOUSING AND WEAK MARKET CITIES: OPPORTUNITIES AND CHALLENGES

Weak market cities are in a difficult position. While they have strong assets, including their rich physical fabric and strong neighborhoods, those strengths are not well reflected in market conditions, which appear to be locked into a cycle of decline. Any strategy to reverse the cycle must begin with a thorough understanding of both the assets and the complex challenges facing these cities.

Weak market cities have many assets that represent market opportunities

Cities, even the most distressed ones, are far more than the sum of their problems. Older cities have significant assets, many of which have yet to be fully harnessed in their efforts to rebuild their economy and quality of life:

A rich, concentrated physical fabric. Older cities often offer a dynamic mixture of open spaces, civic assets such as universities, riverfronts, Olmsted parks, and historic buildings, all close to one another, walkable or accessible through public transportation. Despite the ravages of time and urban renewal, much of this fabric remains intact. The grand buildings of 19th century downtown Syracuse, NY, St. Louis' Washington Street loft buildings, and Buffalo's Olmstead parks and Frank Lloyd Wright houses are examples of the uniquely rich texture of our older cities, creating scope for entrepreneurship, creativity and revitalization. Theater districts in Cleveland and Buffalo, and waterfront revivals in Norfolk and Baltimore testify to the numerous opportunities that the urban fabric offers.

Strong neighborhoods and unique housing stock. Most weak market cities have strong neighborhoods where the homes are well maintained and desirable, and where market activity is robust, although houses may sell for less than what they would command in adjacent suburbs. Much of the housing in these neighborhoods has a historic or architectural character that makes it unique not only in the city, but in the region. Many of these neighborhoods still contain a rich social fabric, reflected in strong community bonds and institutions. These cities also contain many once-deteriorating neighborhoods where the efforts of residents, CDCs, and community institutions have led to revival, such as Stockton in Camden, NJ; Patterson Park in Baltimore; and Slavic Village in Cleveland.

Flexible housing and building inventory. Unlike much of the building that has taken place in the United States since the 1950's, large parts of the urban environment are well adapted to reuse as needs and market conditions change. Yesterday's factory becomes today's upscale apartment building, while the mansions of late 19th century merchants, as in Trenton, NJ, become offices for lobbyists and trade associations. Immigrants, bringing their energy and creativity, find housing they can afford in the cities, while former industrial sites in cities such as Kalamazoo, MI and Toledo, OH have become reuse opportunities for everything from big box retail to townhouses.

Reviving downtowns and strong anchor institutions. The reinvention of urban downtowns as residential communities is bringing new vitality and civic identity to cities such as Baltimore and St. Louis. Many urban neighborhoods have distinctive assets that can be used to foster revival, such as parks, historic districts, and anchor institutions, such as hospitals and universities. Those institutions, particularly colleges and universities, can make major contributions to revitalization, as the work of Trinity College in Hartford, Yale University in New Haven, and the University of Pennsylvania in Philadelphia have shown.

Creative leadership. Finally, the leadership being provided by public officials, CDCs and other community institutions in these cities is perhaps their most powerful asset. Mayors such as William Johnson in Rochester and Martin O'Malley in Baltimore, or CDCs such as the St. Joseph's Carpenter Society in Camden and Detroit's Warren/Conner Development Coalition, have demonstrated that change is possible. A growing network of supportive organizations, including The Enterprise Foundation and the Local Initiatives Support Corporation, as well as local CDC associations and intermediaries such as the Pittsburgh Community Reinvestment Group and Neighborhood Progress, Inc. in Cleveland, have brought funders, local officials, and CDCs together to frame strategies to rebuild their communities.

Prevailing market conditions in many cities, however, fail to reflect these strengths. Instead, the lack of population growth and increasing concentrations of poverty have led to a series of negative pressures in the housing market, reinforcing one another and perpetuating a cycle of decline, undermining the ability of weak market cities to capitalize on their assets. Understanding the pressures that cities are facing is critical to confronting and dealing with the challenges they face.

Despite city assets, most housing markets in weak market cities remain trapped in a cycle of decline.

A series of interlocking pressures drive the housing markets in weak market cities downward – weak demand leads to low housing values and high vacancies, which lead in turn to property abandonment and neighborhood deterioration. While this is not true of every neighborhood in these cities, it is true of far too many.

Weak demand. Lack of growth, either within the city or the region as a whole, has led to two critical patterns in the housing markets of weak market cities:

- Total housing demand is limited; i.e., relatively few people are looking for housing in these cities.
- Those looking for housing are disproportionately likely to be low earning households.

This does not mean that there is no demand, or that all housing demand is made up of lower income households. Families continue to move into even the most distressed communities, and many of them – particularly in selected neighborhoods – are not poor. Relative to the size of the community's housing stock, however, the number of people looking for housing in weak market cities is smaller and disproportionately poorer than in growing, strong market communities.

Low housing values. Where demand for housing is weak, market values are usually low. The prices of single family houses on the market in Rochester, NY are shown in Table 1. In contrast to many parts of the United States, where a house selling for $100,000 to $200,000 would be considered inexpensive, these houses are near the top of Rochester's depressed housing market.

While low prices render housing more affordable for some, they are likely to create more problems than benefits. Where existing houses sell for far less than what it would cost to build new houses, developers have no incentive to build anything other than subsidized housing, and existing homeowners are reluctant to invest money to rehabilitate or maintain their properties. While people who cannot afford anything else may buy such houses in order to find affordable shelter, homebuyers who have choices tend to avoid low-value communities, because the houses are not seen as good investments.

Poor housing conditions. Because housing surpluses and low prices discourage investment, they lead to inferior housing conditions, particularly for the poor. While low prices may result in bargains for a few moderate- and middle-income families, many low-income families in weak market cities experience severe housing problems. These are overwhelmingly those of quality, not quantity. In the

TABLE 1: DISTRIBUTION OF SINGLE FAMILY SALES PRICES IN ROCHESTER, NY

PRICE RANGE	NUMBER	PERCENTAGE	MEDIAN PRICE
0 to $39,999	278	36.5%	
$40,000 to $59,999	279	36.7	
$60,000 to $99,999	150	19.7	
$100,000 to $199,999	37	4.9	
$200,000 or more	23	3.0	
TOTAL	761	100%	$47,190

SOURCE: Multiple Listing Service (July 2004)

TABLE 2: HOUSING AND POPULATION TRENDS IN BUFFALO, NY 1960-2000

YEAR	POPULATION	HOUSEHOLDS	HOUSING UNITS	UNITS NEEDED TO MAINTAIN 5% VACANCY RATE	"SURPLUS" HOUSING UNITS
1960	532,759	169,086	174,153	177,540	0
1970	462,768	157,951	166,107	165,849	258
1980	357,870	140,954	156,393	148,002	8,391
1990	328,123	135,595	151,971	142,375	9,596
2000	292,648	122,720	145,574	128,856	16,718

SOURCE: U.S. Census

midst of abandonment, many families, particularly recent immigrants, live in severely overcrowded conditions, while many buildings fall into disrepair, allowed to deteriorate by owners who see no economic gain from investing in their properties.

High vacancy rates and widespread abandonment. Where demand is weak, and housing quality is low, few people look to buy or rent homes. As a result, there are usually more houses or apartments available than the demand. Buffalo's recent history, shown in Table 2, illustrates this point. While the size of the city's housing stock has steadily declined, the number of households has declined even faster. As a result, each decade has shown a greater housing surplus[2] and higher vacancy rates than the one before.

As vacancy rates go up, and owners see no market or long-term prospects for their properties, abandonment grows. Abandoned or dilapidated properties undermine the economic and social health of a neighborhood, reduce the market values of adjacent properties,[3] and increase the risk of crime, fire and disease. Although solid statistics are hard to come by, as many as 10 percent of all the buildings in hard-hit cities such as St. Louis or Buffalo are abandoned, while in 2001 one out of every three city blocks in Philadelphia contained at least one abandoned property. In such environments, the value of new construction becomes uncertain. Except where it draws a new pool of buyers to the community or otherwise enhances neighborhood quality, each new house built may mean that one more older house will remain empty.

Declining neighborhoods. Finally, market weakness has a profound effect on a neighborhood's stability and quality of life. A neighborhood with large numbers of vacant lots and abandoned buildings, in which owners are not motivated to maintain or improve their properties, is a troubled neighborhood. Few people will put their own money into upgrading properties in these areas, while families whose economic conditions improve are more likely to move out of the area rather than move up to a bigger or better house in the same neighborhood. As older homeowners pass away or move, homeownership declines and absentee ownership rises, with many new buyers more interested in making a quick buck than improving the community.

The spiral of neighborhood decline is a familiar one. Properties are neglected, more affluent households leave, retail stores close their doors, and local governments, already under severe fiscal constraints, allow services and infrastructure to decay. While far from universal, one or more neighborhoods in which this downward spiral has already gone far are likely to be found in every weak market city.

Many cities have yet to effectively utilize their assets to break this cycle, and begin the process of rebuilding their housing and their neighborhoods. To do so, a community must not only make a commitment to change, but must pull all of its key stakeholders together to design a strategy to invest its housing resources in ways that respond to and build on the realities of the local market. For that to happen, housing investments and choices must be grounded in a series of goals, reflecting the features of the housing markets summarized above. The following section will outline those goals, which in turn will provide a framework for the guiding principles and specific strategies described in the third section of this paper.

[2] A housing surplus is defined for this purpose as vacant units in excess of the number needed to maintain a 5 percent vacancy rate. This definition — which is that used by the city of Buffalo, not the author — while debatable, is not unreasonable.

[3] A recent study in Philadelphia found that the presence of an abandoned property on a block reduced the value of the rest of the properties on the block by $6,500 each. Temple University Center for Public Policy & Eastern Pennsylvania Organizing Project, *Blight-Free Philadelphia: A Public-Private Strategy to Create and Enhance Neighborhood Value.* Philadelphia, PA, 2001.

CHAPTER 2

REVERSING DECLINE: POLICY GOALS FOR HOUSING INVESTMENT IN WEAK MARKET CITIES

Every weak market city shares the same dilemma. Resources for housing investment are limited, and needs far exceed the dollars available. Competition between different needs, neighborhoods, and policy goals is the rule rather than the exception. These issues are hard to resolve. Do we seek to tackle the most disinvested neighborhoods, or focus on intermediate neighborhoods at risk of further decline? Do we concentrate on meeting lower income housing needs, without regard to the market consequences, or focus on strengthening the real estate market, at the risk of worsening the housing conditions of the poor? In the absence of clear policies and priorities, many cities – local officials, funders, and CDCs alike – often try to do a little of everything, scattering limited resources in ways that while helping a handful of direct beneficiaries, yield little sustained benefit to the community.

Ultimately, no city can do everything. Moreover, unless the city's housing efforts are designed to address the underlying market dynamics at the heart of many of the problems, their efforts are not likely to change conditions meaningfully for the bulk of the city's residents. The starting point for thinking about housing policy is that in weak market cities, investment in housing as such may not be the issue. Housing surpluses, low market values, and abandonment all make that point. While producing more affordable housing and keeping rents and prices affordable may be central strategies in strong markets, in weak market cities simply adding more units to an already overly large housing stock does not make the city stronger or a better place to live.

Indeed, it may be more productive to think of housing not as a way of addressing a set of problems, but a response to a broader citywide and regional challenge. *Housing investment in weak market cities can become a tool for strengthening the city and its neighborhoods, and improving the quality of life for the city's citizens of all income levels. Housing policies in these cities should be designed to help restore the city's competitive position in its region and foster a more diverse economic mix in the city's neighborhoods.*

This is a tall order. It can only happen where housing investments are more than discrete projects, but are part of a larger long-term strategic framework driven by market-building strategies, with projects and activities emerging from a framework reflecting comprehensive neighborhood or area revitalization goals. To that end, *each housing investment or activity should be designed to achieve one or more of four fundamental policy goals:*

- Build neighborhoods, not just houses
- Foster a more diverse economic mix in the city and its neighborhoods
- Make sure the community's present residents benefit from change
- Leverage housing investment to help rebuild the city's economy

Goal 1: Build neighborhoods, not just houses

A stable thriving city is a city of stable thriving neighborhoods.[4] People choose to move into, or stay in, neighborhoods more than houses. When people with enough money to choose between neighborhoods pick a neighborhood to live in, it is the quality or the potential of the neighborhood that first draws them in, and the realization of that potential that holds them. The aspiring young family

[4] While downtown revitalization is critically important, it is not a substitute for rebuilding residential neighborhoods. Indeed, as the economy of urban downtowns becomes more residentially oriented, a city's downtown can be seen as one of its many neighborhoods, albeit one with special and distinctive features.

that sells their house in the city to buy another in a nearby suburb is often not walking away from a house, but from a neighborhood.

What the future holds for today's weak market cities will be determined by how well they maintain the stability and enhance the appeal of their neighborhoods, and create a climate that not only encourages people with choices to buy in the city's neighborhoods, but encourages those who are already there to stay and invest – of their time and energy as well as their money – in their neighborhood. The task, in a phrase widely used today, is to create neighborhoods of choice.

To create neighborhoods of choice demands that equal attention be paid both to making housing investments, and to building and preserving neighborhood amenities. They are two sides of the same coin.

Housing investment is neighborhood investment. While neighborhood revitalization requires engagement and investment in many different areas, housing investment may well be the most important. Not only do residential areas make up the greater part of any neighborhood, but housing investment goes directly to what creates or undoes neighborhood vitality – the decisions by hundreds of separate individuals and families to buy or rent, to fix up or neglect, and to stay or leave.

For this reason, each housing investment should be evaluated not only in terms of its contribution as shelter, but in terms of how it is designed to contribute to making the neighborhood as a whole stronger and more competitive. The importance of doing so is highlighted by the experience of the past, which has seen housing development and neighborhood change often disconnected from one another, resulting in the many large, socially and economically isolated housing projects that have sadly come to be seen as the archetype of affordable housing across the United States. Although the work of a growing number of enlightened CDCs and developers has changed this pattern in many communities, it is still true of many cities and neighborhoods.

By the same token, those investing in public amenities do not always think about, or coordinate, their investments with housing investments in the same areas. From Cincinnati to Newark, NJ, states and localities are spending billions to replace and rebuild urban schools, while even the most cash-poor city spends millions each year to maintain and refurbish its streets, sidewalks, parks, and community centers in its neighborhoods. Little of this money, however, is being spent in coordinated efforts to rebuild those neighborhoods.

New schools, green spaces, transit lines, and shopping districts should all be planned and designed in conjunction with housing investments, just as housing investment must be tied to the schools, open space, and other development taking place in the same neighborhood, so that all of the money being invested in a neighborhood has the greatest cumulative impact on its quality of life, adding to its appeal to people seeking a good place to live.

WHAT IS A NEIGHBORHOOD OF CHOICE?

A neighborhood of choice is a neighborhood that people who are in a position to choose between neighborhoods choose to live in, either to stay in or move into. The quality of life that makes a neighborhood of choice varies with the beholder. It may mean good schools or attractive parks and open spaces. It may mean historically or architecturally distinctive houses being well maintained by their owners, and streets lined with mature shade trees. It may mean proximity to a university or other major institution, stores and restaurants within easy walking distance, or convenient public transportation to downtown. It may mean strong community organizations, and active civic engagement at the neighborhood level. The quality of life of a neighborhood, however, does not stem from the mere presence of parks, schools, or old houses. They must not only exist, but must work well. An unsafe park, a physically dilapidated school, or a marginal, largely vacant, commercial strip, do not enhance neighborhood quality. Above all, a neighborhood of choice is one that people feel positively about, and feel that their investment – not just financial, but their time, energy and personal commitment – will yield a positive return.

Goal 2: Foster a more diverse economic mix in the city and its neighborhoods

Cities as a whole are disproportionately poor, and weak market cities tend to be the poorest. In weak market cities, poverty has become highly concentrated, reflecting the steady movement of those residents, of all racial or ethnic backgrounds, who develop the economic ability to move out of the city. Unless cities can reverse this pattern, they will remain locked into an ongoing cycle of continued deterioration and impoverishment. Even efforts to help city residents escape poverty may not help the city itself, if residents continue to see the city as a place only for those unable to afford anything better. *For this reason, a city that becomes attractive to the moderate, middle and upper income people who could choose to live elsewhere will not only draw a new generation of affluent in-migrants, but will encourage more of its own residents to stay and put their talents to use in the city, rather than flee for greener suburban pastures.*

A healthy city is a diverse city, offering an environment that appeals to people of different generations, racial and ethnic groups, and economic levels. Fostering a more diverse economic mix, and attracting more moderate, middle and upper income households to the community can trigger an economic improvement chain reaction, reducing concentrations of poverty and reversing the cycle of decline. If the city manages that process effectively, as we discuss in the next section, that chain reaction can ultimately benefit everyone.

- **Increased housing demand raises property values.** As housing demand grows, property values increase, encouraging better property maintenance as well as investment in both new construction and rehabilitation, reducing abandonment and improving neighborhood quality.
- **Higher values provide more city revenues.** Increased property values and higher resident incomes translate into greater property, sales, or income tax revenues for local government. These revenues can translate into improved city services, and a better quality of life for all residents.
- **Increased disposable income enhances job growth**. As disposable income grows, retail spending grows. Entrepreneurs can translate additional spending into new business and job opportunities in the city.

Cities have three ways to change their economic mix and build their middle class. All three are equally important:

- **Grow upward mobility** by investing in education, financial literacy, job training, and improving city residents' access to suburban job opportunities.[5]
- **Retain upwardly mobile households** by improving services, reducing crime, and fostering a better quality of life in the city's neighborhoods.
- **Attract middle and upper income households** from outside the city by creating neighborhoods of choice, and marketing them throughout the region.

Creating economic diversity may not involve trying to attract wealthy households into the most distressed areas; it is an incremental process of moving neighborhood markets gradually from where they are to where they should be. A neighborhood where the median income is 30 percent of the regional median will benefit from an increase in moderate-income households, either as an end in itself, or a springboard to greater future economic diversity.

While some cities can attract middle and upper income residents by more effectively marketing their existing assets, others may have to provide financial incentives to compensate for the low market values and limited appreciation in the city's housing stock. This raises the question of when and how it is appropriate, from a policy and ethnical standpoint, to use scarce public resources to assist non-poor households when low-income housing needs remain unmet.

There are circumstances where it is clearly in the city's interest to use public funds to make higher end housing feasible, to strengthen the housing market, and to 'prime the pump' for private market investment. For local officials and CDC staff to be able to determine what those circumstances are and use public resources effectively, they must have a solid understanding of the local housing market and the real estate development process. Only by developing the ability to target public investment to leverage significant private resources, rather than simply giving money away to developers, can cities develop responsible, ethical policies to promote the economic mix that is needed for a viable, sustainable community.

Goal 3: Make sure the community's present residents benefit from change

Fostering middle and upper income growth and improving the quality of life of the city's present lower income residents are complementary, not conflicting goals. While ideally the movement of more affluent households into the cities would be matched by greater housing opportunities throughout the region for low-income households, this is not the reality that most cities and regions will experience. The slow pace of economic change

[5] Cities should also work to draw more jobs back to the urban core. At the same time, particularly in smaller cities, suburban job opportunities may be highly accessible to urban residents. In such cases, building stronger linkages between urban workers and suburban opportunities is a highly effective strategy for fostering upward mobility.

[6] This can be illustrated in a hypothetical weak market city with a population of 100,000, or 36,000 households. In such a city, typically 2/3 of the households or 24,000 will be low and moderate income, compared to 40% or 14,400 in the region as a whole. If the city was able to have a net in-migration of 200 affluent households per year and net out-migration of 100 lower income households per year, a highly optimistic goal, the percentage of lower income households after 10 years would still be 62% and after twenty years 58%, still far higher than the regional average.

dictates that poor and near-poor households will remain disproportionately concentrated in cities for the foreseeable future,[6] and that cities will continue to bear the greatest part of the responsibility to address their needs. Failure to address these needs will not only perpetuate the slums and ghettos that are both cause and symptom of the city's distress, but may spur growing conflict and unrest, particularly if some parts of the city are visibly thriving while others are neglected.

While affordability issues exist in weak market cities, their effect is most heavily concentrated among very low-income families. This is in contrast to growing, high demand cities, where moderate and even middle-income households are being affected by rising housing costs. The needs of very low-income families should be addressed not only through effective, targeted use of Section 8 vouchers, but also through effective use of whatever limited resources may be available to reach this population.[7] Problems of housing quality, including substandard housing and overcrowding, are far more widespread among low-income renters and new immigrant households, as are continued barriers to homeownership among lower income households and people of color.

Affordable housing production must continue, because lower income households with urgent housing needs are and will continue to be a large part of every weak market city's population. To contribute to the city's revival, however, it must be closely tied to the city's strategies to rebuild its neighborhoods, build its middle class, and reinvigorate the local economy. To do so, CDCs and developers should follow two principles:

Build affordable housing to build wealth. It is both good policy and good politics to ensure that long-term residents of the community benefit from the city's revitalization. Affordable housing can build community assets while creating opportunities for lower income families to become more stable, engaged members of the community, helping them build individual assets and move out of poverty. Where feasible, affordable housing should be used as a vehicle to help lower income residents build wealth and self-sufficiency, and move up the housing ladder into home ownership, using shared-equity homeownership strategies and making sure all buyers have access to solid, hands-on financial literacy and homeownership education and counseling. At the same time, cities should avoid pursuing homeownership strategies that place financially stressed households into uncertain ownership situations, particularly in neighborhoods where ownership may deplete rather than build the family's assets.

Enhance neighborhood quality with quality affordable housing. Providing higher quality affordable housing for lower income families not only benefits those families, but also their neighborhoods and the city as a whole. Rehabilitating substandard housing or building new, well-designed affordable housing can improve the physical and aesthetic quality of a neighborhood. Carried out sensitively within the framework of an overall neighborhood strategy, it can enhance rather than compromise the area's attractiveness to more affluent homebuyers. Not only can affordable housing often be combined with market-rate housing in mixed-income developments, helping to meet lower income housing needs while simultaneously attracting more affluent residents, but affordable housing development in itself can provide a boost to a neighborhood, eliminating blight, building community capacity, and engaging lenders, local officials, and others in the neighborhood's future. To this end, cities should:

- **Make the best use of the existing housing stock.** Affordable housing can and should be pursued where possible through better use of the existing housing stock. This can happen by assisting households to find better housing through counseling or rental assistance, improving currently occupied housing, or restoring abandoned properties to productive use.

Ill-conceived construction of new housing for lower income households in areas that contain an excess of existing housing may trigger additional abandonment, further destabilizing viable neighborhoods. New construction of affordable housing can be valuable, however, where the neighborhood's existing housing stock is unsuitable for reuse or unappealing to potential homebuyers, where well-designed and highly visible new units can change the perception of a neighborhood, or where it addresses a particular unmet need or fosters economic diversity. Otherwise, the ultimate costs of new construction, when a full accounting is made, may well exceed its benefits.

- Maintain a healthy balance. All cities, but particularly weak market cities, should avoid creating or perpetuating neighborhoods that concentrate poverty and low-income rental housing.

[7] Unfortunately, nearly all affordable housing programs currently available – with the exception of Section 8 vouchers – are targeted to households earning 40% of the regional median (in the case of Low Income Housing Tax Credit rental housing), or much more, as in the case of most affordable home ownership programs. Little help is available for households earning 30% of the regional median or less, who are those most likely to suffer from affordability problems in weak market cities.

Affordable housing investments should be guided by the need to foster a diverse economic mix, as well as a healthy balance of homeownership and rental housing in each neighborhood. Where feasible, affordable housing should be provided within mixed income developments rather than through readily identifiable low-income housing projects. Scattered site strategies utilizing existing housing, although sometimes slower and more complex than new construction, actually make it easier to provide affordable housing while also building balanced neighborhoods.

Finally, although this paper focuses on housing issues, building the value of the city's existing human capital, through education, training and increased access to job opportunities must go hand in hand with physical revitalization strategies. Building human capital fosters upward mobility of residents, and contributes significantly to the overarching goal of building a socially and economically diverse community.

Goal 4: Leverage housing investment to help rebuild the city's economy

The central mission of those engaged in a city's revitalization is to restore the city's economic vitality. While a stronger economy does not guarantee a better quality of life for the city's residents, particularly its lower income families, a weak economy dramatically limits the city's ability to improve conditions for its citizens.

Housing plays a far larger and more positive role in most cities' fiscal picture than many people realize, particularly in cities that rely on the property tax for a large part of their local and school revenues. Residential properties make up the great majority of the typical city's property tax base. By even modestly increasing the value of residential real estate, a city can raise more incremental property tax revenues than from strenuous efforts to attract new businesses and industries. Cities should focus on increasing the value of their housing stock as a whole; the best way to do that is to improve the city's neighborhoods, making them more attractive to an increasingly diverse body of homebuyers.

WHY RESIDENTIAL PROPERTIES MATTER: THE CASE OF BALTIMORE, MD

The total property tax base in the city of Baltimore was worth roughly $19 billion in 2004. Of that, nearly $14 billion, or 72%, represents residential properties. *That means that a modest 10% increase in the value of the average residential property increases the city's tax base by the same amount as bringing in $1.4 BILLION in new non-residential rateables.*[8]

Housing strategies and housing investments should be closely linked to economic development strategies. What forms this takes may depend on what aspects of the city or regional economy offer economic development opportunities, including:

- Developing housing in conjunction with transit systems not only creates added value for the housing, but increases the mobility and job opportunities of the residents.
- Developing downtown housing can provide the impetus for additional economic activity in the downtown area, including retail stores, restaurants and entertainment.
- Neighborhood revitalization strategies can link housing and neighborhood-scale economic development, including the revitalization of traditional shopping districts and creation of new commercial centers.
- Market-building strategies can increase real estate values, providing enhanced tax revenues for the municipality.

Over and above these specific connections, leveraging housing for economic development is about a state of mind. *Every local official, CDC, or investor should ask, with respect to every proposed project or investment: how will this help grow the city's economy?* The answer can come in many different forms, from taking larger economic strategies into account when choosing which neighborhoods to prioritize, framing marketing strategies to capture a larger share of the region's affluent in-migrants, to designing housing programs that capitalize on regional assets, or maximize local employment and contracting opportunities.

[8] $1.4 billion in non-residential development is roughly equivalent to 10 million square feet of office space, or 15 to 20 million square feet of retail space, representing an expansion of the city's commercial tax base by 35%, a highly unrealistic goal by comparison with a 10% increase in residential property values. The fiscal benefits of such development, moreover, would be significantly reduced in all likelihood by the fact that the city would probably be forced to provide substantial tax abatements to the new commercial developments.

CHAPTER 3

TURNING GOALS INTO REALITY: GUIDING PRINCIPLES AND INVESTMENT STRATEGIES FOR WEAK MARKET CITIES

Without effective implementation, goals are no more than good intentions. Carrying out any of the above goals requires that a community's leadership plan, design, and systematically carry out a cluster of related strategies, programs, and initiatives. Strategies and programs, however, must in turn be grounded in principles, or ways of thinking about the city's challenges and opportunities that make it possible to confront, and even reverse its cycle of decline. These principles must inform and animate the community's programs and strategies if they are to be effective at realizing the goal of building a revitalized city. We have identified seven guiding principles, which reflect the experience of many cities over recent years.

GUIDING PRINCIPLES FOR HOUSING INVESTMENT IN WEAK MARKET CITIES

1. Think strategically
2. Capture your market
3. Set the table for investment
4. Tailor strategies to neighborhood market dynamics
5. Build on community assets
6. Build quality into all physical investments
7. Address affordable housing needs to create opportunities and strengthen neighborhoods

In this section, we describe a wide range of strategies, organized around these seven guiding principles. These are strategies that have emerged as being effective in using housing investment to lead to significant, sustained change in weak market cities. We will also describe some of the specific program elements that make up each strategy, along with examples where local governments, CDCs, developers, and others have used that strategy with successful results.

Principle 1: Think strategically

The common ground of all weak market cities is the need for change. People want to change the conditions that have led to the decline of their city's housing market, and reverse the cycle in order to rebuild the city's economy and its quality of life. This is not new. People have been working to make their cities better for decades, and yet, although not without some success, the cycle of decline has not been halted. Sustained change demands an overall strategy for change, based on a clear idea among the city's leadership and citizenry of the changes they want, and a long-term, sustained commitment to make it happen. A successful strategy also involves a clearheaded assessment of the reasons for decline, carefully formulated steps to address those conditions and turn the situation around, and strategic use of available resources to that end.

STRATEGIES

A. Get everyone on the same page
B. Make partnership a way of thinking
C. Inform your strategy with reliable and up-to-date information
D. Encourage community-based planning for neighborhood change
E. Use resources strategically

A. Get everyone on the same page

Perhaps the hardest step in building an investment strategy is to tie the efforts of the many funders and funding sources into a coordinated strategy. Public funds come from different entities at different levels of government, governed by separate statutes and regulations, and driven by inconsistent or competing organizational interests. Even at the local level, different entities – whether funders or fund recipients – often do not work together to identify and target the same opportunities to achieve the goals they share. The difficulties of bringing together multiple public and private partners to frame a common agenda that also serves each of their separate interests can appear daunting, particularly to those who know how difficult it can be to coordinate the many funding sources just to put together a single housing development.

GOOD PRACTICES

In **Rochester, New York,** local government funding decisions and priorities are coordinated and tied to the citywide neighborhood planning process. Decision-making level staff from each city department and the school district meet quarterly to review how their efforts are linked to each other, and to the neighborhood plans developed through the city's Neighbors Building Neighborhoods process.

In **Cleveland, Ohio,** three local foundations along with many of the city's major corporations came together to create Neighborhood Progress, Inc., a vehicle through which they could pool resources and leverage public funds to foster neighborhood revitalization and strengthen the city's community development corporations.

To the extent that the different branches of municipal government – housing, public works, parks and recreation, community development – are under mayoral control, strong mayoral leadership can get them to work together to target their resources jointly. A key local stakeholder – the mayor, a foundation president, or a corporate executive – may be able to provide the leadership to bring public and private funders together to agree on a common agenda for the allocation of their resources.

Getting everyone on the same page is an incremental process. One-shot efforts to bring all funders and fund recipients together to agree on a common strategy, without a solid foundation for joint action, rarely bring sustained results. A step-by-step approach, building joint strategies among those entities that are easier to bring together, and gradually moving outward, is needed to make a real resource strategy happen. A city that has already gotten its departments to coordinate their efforts will be better able to reach out to foundations or state agencies than one that has yet to put its house in order.

Getting everyone on the same page not only demands that key leaders, including the mayor, and foundation and corporate leaders, make a major commitment of their time and energy, but requires them to identify capable and committed 'point people' – senior staff within the key organizations – with the ability to fill out the details and the authority within their organizations to make change happen.

B. Make partnership a way of thinking

Thinking strategically means building partnerships. No city, however talented its leadership and dedicated its staff, can carry out a comprehensive rebuilding strategy by itself. Similarly, even the most effective CDC can do little without the support of the city in which it is located. City governments, CDCs, developers, neighborhood associations, funders, and local institutions must all be willing to work together as genuine partners to make change possible.

Building and sustaining effective partnerships often requires a major change in the way institutions think. Long-established ways of operating may have to be reconsidered. City government should be able to share decision-making with neighborhood organizations, while CDCs must learn to think about their neighborhoods and neighborhood strategies within the larger context of the overall future of the city.

The ability to build genuine partnerships in many cities is often clouded by decades of mistrust, or lack of mutual respect – personal or institutional – on the part of key community stakeholders. Building the community's revitalization strategy should include wherever possible, a deliberate, incremental strategy of bringing people together from across the many lines that divide them – city and county government, cities and CDCs, CDCs and local corporations – in order to establish the type of working relationships that make partnerships possible.

C. Inform your strategy with reliable, up-to-date information

Solid information is a critical part of a sound strategy. Neighborhood housing and market conditions are in constant flux, with important changes often taking place below the radar screens of even close observers. The most effective housing strategies are grounded in neighborhood and property information systems, using hard data that is available in real time, or if not, is regularly updated. These information systems make both neighborhood planning and trouble-shooting more effective by enabling public officials, CDCs, and community groups to track changes in their neighborhoods, from large-scale shifts in market conditions to smaller changes taking place on specific city blocks or in individual buildings. This knowledge helps communities to target resources both where they are needed and will be most effective.

Information systems can identify trends affecting problem indicators:

- criminal activity
- fires
- tax delinquencies and foreclosures
- mortgage foreclosures
- code violations and complaints
- utility shutoffs

as well as indicators of positive activity:

- home purchases
- conventional mortgage lending
- market value increase
- increased spending on home improvement
- reduction in crimes or fire damage.

By using these trends to create indicators of market performance, cities can not only track problems, but build a valuable tool to tailor specific neighborhood strategies based on the area's particular market dynamics.

Public agencies, Boards of Realtors, and others routinely gather and enter different parts of this information. Putting it together into an effective and user-friendly system, and keeping the system timely through constant updating, requires a high level of cooperation between different public and private organizations, and usually calls for a single, highly capable entity – often a university-based research or planning center – to take the lead in creating and maintaining the system.

GOOD PRACTICE

To support the community planning and neighborhood revitalization efforts of the city of **Minneapolis, Minnesota,** the Minneapolis Neighborhood Information System (MNIS) was developed at the Center for Urban and Regional Affairs of the University of Minnesota. MNIS serves the city as well as the city's 88 neighborhood councils. In addition to providing information through MNIS, the Center provides training in using the system to neighborhood leaders and CDC staff, and recruits faculty and students to carry out research studies using the MNIS system on behalf of the neighborhood councils. This is one of a growing number of information resources available to community groups, including Neighborhood Knowledge Los Angeles (NKLA) and the National Neighborhood Indicators Project at the Urban Institute.

D. Encourage community-based planning for neighborhood change

Comprehensive, community-based, neighborhood revitalization planning is a powerful tool for neighborhood change. A strong neighborhood plan, engaging the full range of stakeholders within and outside the neighborhood, serves many useful and important functions:

- It provides a clear direction, or road map, for the neighborhood's future.
- It provides an effective means of balancing market forces with other community objectives.
- It can build support for the community's future, among neighborhood residents as well as key prospective funders and supporters.
- It gives credibility to the serious, ongoing nature of the community's revitalization efforts.

The State of Connecticut boiled the neighborhood planning process down to four key questions:

- What does the neighborhood look like today?
- What do we want our neighborhood to look like?
- How do we get there?
- How do we measure our progress?

TABLE 3: THREE MODELS OF NEIGHBORHOOD REVITALIZATION PLANNING

Model	Description	Examples
Citywide neighborhood revitalization strategy	Through city initiative, neighborhood revitalization planning is carried out in all neighborhoods – or all neighborhoods meeting threshold criteria – in city	Minneapolis, MN Rochester, NY Portland, OR Seattle, WA
Target neighborhood revitalization strategy	Through city initiative, neighborhood revitalization planning is targeted to selected neighborhoods designated on the basis of priority criteria	Richmond, VA Baltimore, MD Chattanooga, TN
Neighborhood-driven revitalization planning	Individual neighborhoods initiate "bottom-up" revitalization planning strategies for their area	Camden, NJ East St. Louis, IL

The strategies, activities and budgets of a good plan should be ambitious, but realistic. They must be based on a pragmatic assessment of the resources that are potentially available, tied to the city's larger goals and strategies. Above all, they must be grounded in the marketplace, reflecting a realistic sense of what is feasible under current and likely future market conditions, so that it does not become a 'wish list' that will ultimately lead to frustration rather than achievement.

The impetus for neighborhood revitalization planning can come from local government or from neighborhood organizations seeking to foster change in their community. In either case, cities should integrate neighborhood revitalization planning into the way public resources are allocated, and work with public and private funders to build a support system for community-based planning.

GOOD PRACTICES

The Wachovia Regional Foundation, based in **Philadelphia**, has focused much of its resources on neighborhood revitalization planning and implementation. Through a competitive process, the foundation awards both planning grants ($25,000-$100,000) and implementation grants ($100,000-$750,000) to non-profit neighborhood-based organizations in Mid-Atlantic states. During 2003 they provided $5.1 million to 17 organizations. The foundation was established as a product of the 1998 acquisition of CoreStates Bank by First Union (now Wachovia) Bank. **Rhode Island Housing**, a state agency, provides planning grants of up to $50,000 to fund community-based neighborhood planning, as well as smaller grants of up to $10,000 for targeted assistance to community groups.

Planning, however, is not its own reward. Preparing a plan demands a great deal of time and energy from community residents. It can energize residents and become a focus for their aspirations. If it does not lead to tangible results, however, that energy can turn to frustration and hopelessness. If the city does not intend to put resources into implementation of community plans, or if the CDC leading the process does not see a realistic potential of gaining the resources it needs for the projects laid out in the plan, it may be appropriate to reconsider the undertaking.

E. Use resources strategically

The demand for funds, particularly 'soft' money such as grants or below-market loans, always exceeds what is available. While this is true everywhere, it is particularly true in weak market cities, where private sector investment is still limited or dependent on public support and public funds are in particularly short supply. Thinking strategically demands that resources not be scattered among projects or neighborhoods, but redirected to support clearly defined goals by being targeted to priority activities, avoiding using funds for activities that do not further the community's larger strategies.

Cities are constantly struggling to fill short-term budget holes, making it difficult to divert resources to long-term strategies. While there is never enough money, the amount actually available is often underestimated. Cities that spend the time to systematically identify their potential resources, including many from nontraditional sources, may discover that the dollars potentially available for targeted community investment are greater than they may believe. Federal transportation funds, for example, have been used in a number of communities to leverage private as well as public sector investment for streetscape improvements, public facilities and even housing.

All of the funds cited below can either be used directly for housing, or in ways that can leverage housing investment, increase housing values, or further neighborhood change. All of them should be connected as much as possible and used for maximum effect.

POTENTIAL RESOURCES FOR NEIGHBORHOOD INVESTMENT

- CDBG and HOME funds to the municipality
- HUD, USEDA, EPA, and other competitive Federal funds
- Local appropriations or capital spending for infrastructure improvements and upgrading or replacement of public facilities
- Local funds from property sales, or public benefit enterprises
- Tax increment financing revenues and tax abatements
- County funds for open space, public facilities, and other uses
- School district funds for rehabilitation, expansion or new construction of school facilities, or state funds channeled to school districts for that purpose
- Tax credit programs for neighborhood revitalization and community assistance, as well as for historic preservation
- State housing trust fund or housing finance agency resources

- State funds for open space, transportation improvements, infrastructure, historic preservation, and similar uses
- Federal transportation funds
- Community development support from local foundations, corporations, and major institutions
- Community Reinvestment Act investments from banks

Maximize impact by prioritizing funds for carefully selected target areas. Perhaps the single most important dimension to using resources strategically is the will and the ability to prioritize resources and direct them to where they can best further the community's goals. The impact of local government resources is often dissipated by the way they are used. Rather than being targeted to priority areas or needs, or where CDC or other productive capacity is strongest, scarce funds are often distributed thinly across a wide range of projects and neighborhoods, enabling many people to do a little, but resulting in little or no sustained benefit in the areas in which the funds are used.

GOOD PRACTICE

The city of **Richmond, Virginia** initiated its Neighborhoods in Bloom program, under which the majority of its discretionary community development funds were directed to six of the city's 49 neighborhoods selected after a careful planning process, which included building a citywide political consensus in support of the program. After four years, the six target neighborhoods were showing significant reductions in crime rates, and increases in homeownership rates and property values.

Targeting funds is a critical part of any city's revitalization strategy. Targeting resources takes place in three ways:

- Directing funds to selected neighborhoods, or geographic areas, based on the geographic priorities in the city's overall strategy
- Directing funds to specific activities within targeted areas that best further the strategy for that area and the goals of the neighborhood revitalization plan
- Directing funds where CDC or other productive capacity is adequate to ensure that funds will be used efficiently, in ways that best further community goals.

Some pointers for an effective targeting strategy include:

- Establish an open, transparent planning process to establish the need for targeting and the criteria that will be used, and to assess the city's neighborhoods based on those criteria.
- Include a wide range of resources in the targeting process, not just funds explicitly earmarked for community development, such as money for street and sidewalk repairs, or open space improvements.
- Have a solid plan with partners in place in each of the targeted areas before the resources begin to flow, making sure that the capacity to use the resources effectively is in place.
- Make a multi-year commitment to the priority areas.
- Use the targeting strategy to expand the size of the pie by making the city's revitalization efforts more attractive to outside funders, including state agencies, foundations, and corporations.
- Track the targeted areas, evaluate progress, and publicize the outcomes.

Targeting resources is difficult. Prioritizing certain areas means that some areas will receive more investment, and others, with equally compelling needs, will receive less. It can also mean upsetting long-established patterns by which discretionary funds are allocated to local stakeholders, patterns that often form part of the city's political lubricant. To be successful, a targeting strategy must be seen by the community as a rational strategy, not a process where the targets are hastily or casually determined. Once targeted, funds must still be used effectively. Failure to do so can undermine a difficult, hard-won effort to target resources where they are most needed and can do the most good.

Principle 2: Capture your market

In our market-driven economy, the market makes key decisions that determine the future of a city or a neighborhood. The market is made up of economic actors making decisions, based on the choices and information available to them, about where they should spend their resources. This is basically one process, whether the actor is a young family buying their first home, a chef deciding where to start a restaurant, or a manufacturer planning to open a new warehouse. While many factors go into each decision, the central one is what makes economic sense for the actor making the decision.

BUILDING LOCAL CAPACITY TO ADDRESS MARKET ISSUES

Today's urban decision-makers need to understand far more about how the marketplace operates and how they can influence the market than was once true.

They need to understand the factors that can make their city or neighborhood more competitive within regional and national markets, and how their development decisions affect the community's present market conditions and its future market potential. They need to understand what economic stimuli will prompt individual homeowners, homebuyers, developers, and investors to put their money in one neighborhood rather than another, or in the city rather than in an outlying suburb.

This demands a level of sophistication about market principles and their application that is often in short supply both in local government among CDCs. Not every mayor or CDC director needs to become an expert in all of these areas. Much of the salient expertise, particularly when it comes to specific market analyses or feasibility assessments, is likely to come from consultants, or from a small number of specialized personnel. Key local officials and key CDC staff, however, must understand these areas well enough to use information effectively, and make rational decisions based on that information. At the same time, both cities and CDCs need to recruit more people with real estate development skills, as well as provide existing staff with opportunities to deepen their skills in these areas.

Most people who are not poor have a variety of choices when deciding where to live. They can choose from among different neighborhoods within the city, between the central city, an inner or outer suburb, or choose to leave the region entirely for another part of the country or another part of the world. A city's growth and prosperity hinge on these choices, and the extent to which people conclude that it makes economic sense to live, buy, or build in the city rather than any of the many alternatives. A growing, prosperous city is a competitive city, to which people move not because they have no choice, but because they actively want to be there.

In order to thrive, weak market cities must develop ways to become competitive. That begins by understanding how the market works, and identifying the market opportunities that are available to them. Local officials and CDCs must also learn how to work with the market, and avoid counterproductive actions and decisions that may undermine their city's competitive position. While this is true for all economic activities, it is particularly true of housing demand. *Cities must learn to target housing markets as systematically, and as aggressively as they have historically sought to attract businesses, visitors, or conventions.*

Housing markets are driven by demand. Cities have three ways to build housing demand: by growing the indigenous middle class, holding onto the city's upwardly mobile residents, and drawing new residents from elsewhere in the region. All three are equally important.

STRATEGIES

A. Grow the middle class
B. Hold onto the city's upwardly mobile households
C. Draw new residents from around the region
D. Market the city

A. Grow the middle class

The people who already live in the city represent the greatest resource for building housing demand. Even the most distressed city is rich in the untapped talent and energy of people seeking the opportunity to make a better life for themselves and their children. They represent an opportunity to which cities must respond if they are to overcome their cycle of decline.[9]

The mission of local governments, school districts, social service organizations, CDCs, and others should be to increase the number of people moving up the economic ladder, including those who may need assistance to do so. Cities should enhance the ability of residents to compete in the regional economy, and use their resources to build economic stability and wealth. A variety of strategies are available to achieve these goals.

STRATEGIES TO GROW THE MIDDLE CLASS

Strategies to enhance the competitive position of city residents include:

- Improving outcomes in the local educational system
- Focusing job training and retraining programs around regional employment trends
- Creating transportation systems to increase access by urban residents to suburban jobs
- Strengthening the local employment base through industrial retention strategies
- Working with major local employers, particularly educational and medical institutions, to increase employment and mobility opportunities for city residents

[9] It is important to stress this point, because local officials and others often overlook it in their eagerness to attract growth from outside the city. The size of the existing low income population in the typical weak market city is so large, relative to the numbers of more affluent in-migrants that can realistically be recruited, that unless the city can foster change within the existing population, their efforts to recruit from the outside may remain token gestures, creating pockets of a more affluent population within a larger poverty-stricken environment.

- Growing local businesses and drawing additional businesses to the city to provide increased job opportunities for the city's workforce.

Strategies to increase residents' ability to use their resources to build economic stability and wealth include:

- Programs to increase lower income homeownership, including shared-equity homeownership models such as community land trusts and limited-equity cooperatives
- Hands-on homeownership education and counseling for new home buyers
- Financial literacy education, both in the schools and for adults
- Individual Development Accounts (IDAs).

B. Hold onto the city's upwardly mobile households

Growing the middle class, however, is not enough if upwardly mobile families leave the city for the suburbs as soon as their income and assets make that possible. Holding onto these families is one of the most important things a city can do to preserve its future. Cities can influence families' choices in one of two ways:

- If they are committed to buying a new house, convincing them to buy inside rather than outside the city.
- If they are choosing between improving their present home or buying a house outside the city, convincing them to invest their funds in improving their present home.

The best way to hold onto upwardly mobile families is to make neighborhoods better. The more positively a homeowner feels about a neighborhood and its future prospects, the more likely she will either buy in that neighborhood, or improve her house in that neighborhood, while people elsewhere in the city who perceive that a particular neighborhood is on the rise may buy in that neighborhood instead of leaving the city altogether. Neighborhood planning can play an important role in this process, by providing a road map for the neighborhood's future, making residents aware that there is a larger strategy for the area, and that their investment is not being made in a vacuum.

GOOD PRACTICE

St. Joseph's Carpenter Society, in **Camden, New Jersey**, initiated a comprehensive strategy to rehabilitate abandoned houses in the Stockton neighborhood for homeownership, combined with a strong homebuyer education and counseling program. The CDC's long-term improvement strategy was able to convince large numbers of prospective homebuyers that the area was a sound investment, leading many buyers who might have left the city to buy homes in that neighborhood. Over the course of nearly 10 years, the CDC has rehabilitated over 250 units, capturing as much as 80 percent of the total internally-generated homeownership demand in the city. Abandonment has been sharply reduced, and house values have risen significantly relative to the rest of the city.

Holding onto upwardly mobile families may require creating housing products that are not currently available. Many older working class neighborhoods, and in some cases entire cities, contain little variety in the type and size of housing they offer. In some communities, including Cleveland, a strategy may include building larger, more expensive houses to enable households to 'trade up' within the city, and find their dream house there rather than elsewhere. Such housing is usually newly built, but can sometimes be created from existing housing, as some CDCs have done by combining two attached units into a single larger house. In other areas, the housing stock itself may appeal to upwardly mobile residents, but the quality of the neighborhood's schools must improve before they will be ready to make a commitment to stay in the neighborhood.

C. Draw new residents from around the region

Holding onto existing residents is not enough. Cities also need to draw residents by tapping demand from the people who live in the rest of the region, and who move into the region from outside the area. In many regions, regional demand represents a much larger pool of households than the demand generated within the city itself. Much of this regional demand is potentially available to be captured by the central city, rather than by the suburbs or rural fringe.

Many regions surrounding weak market cities are growing, some rapidly. *Cities can dramatically change*

[10] Some cities, however, are better positioned than others to use regional demand as a basis for growth. Although many weak market cities are surrounded by strong regions, others are not. In other cases, even though there may be regional demand, it may be hard to attract any part of that demand, either because of suburban demographics or the city's limited assets. This is particularly likely to be true of some small cities in slow-growing parts of the old industrial Midwest.

[11] For an older city to attract 20 percent or more of the region's net growth is extremely difficult, and unlikely under present circumstances. The difficulty of attracting a substantial percentage of in-migrants to the region is arguably less, however, than the difficulty of arresting the continued loss of households from older cities through out-migration to the suburbs. .

their population dynamics and demographic character by capturing even a small share of the growth from their suburbs.[10] If Cincinnati had captured 21percent, or St. Louis 30 percent, of their respective regions' growth, those two cities would have gained, not lost, population during the 1990's.[11] In areas where regional growth is more limited, the city might focus instead on attracting households already living in surrounding suburbs who, by virtue of their age, family composition, or other factors are most likely to be interested in city living.

These are the families and individuals who should be the principal focus of a city's marketing efforts, a process known as target marketing. Some of the people that have been increasingly drawn to urban living include:

- Young singles and couples
- Gay individuals and couples
- Artists
- Empty nesters
- Immigrants.

These groups are attracted to the particular assets of certain cities or neighborhoods, such as the employment base, entertainment venues, a distinctive or affordable housing stock, or walkable access to downtown or a major employment center. Households headed by individuals who already commute into the city to work, particularly in regions where commutes are becoming longer and more burdensome, are another potential market. Other cities have found assets that attract other population groups, such as middle-class African-American families attracted by the restoration of a long established but decayed African-American neighborhood, or middle-class families attracted by a neighborhood with distinctive housing stock complemented by a magnet school or alternative educational opportunities for their children.

Turning this analysis into tangible outcomes, in order to draw population and economic activity to the community, involves three basic elements:

- Identify the target groups for which the community is potentially attractive by analyzing the characteristics of regional demand and linking those to the city's assets.
- Identify the assets – real or potential – that make the community potentially attractive to those target groups.
- Develop strategies to utilize those assets to attract the target groups, including strategies to market the city's assets, strengthen existing assets, and create new assets to complement those that already exist in the community.

Identifying and evaluating assets and target markets demands careful, dispassionate analysis to separate the reality from both the negative stereotypes of the city and the wishful thinking of its boosters. Cities planning to pursue such a strategy should recruit the most qualified individuals and firms, either within or outside the area, to carry out this analysis.

GOOD PRACTICE

In **Norfolk, Virginia,** Collins Enterprises, working with the Norfolk Redevelopment and Housing Agency, redesigned a new downtown development, Heritage at Freemason Harbor, based on a detailed target market analysis developed by Zimmerman/Volk Associates. The analysis indicated that the market was larger, and more skewed to young singles and couples than either the city or the developer expected. As a result, the development was redesigned to change the type and layout of the units offered and to orient the development more to the street than had initially been planned.The development has been highly successful. Nearly all of the units were pre-leased or pre-sold well before construction.

While assets that go unmarketed have only limited value, marketing not supported by bona fide assets – whether they are in place or being created – has little meaning. *If the marketing effort is not part of a larger effort to build solid community assets, it is unlikely to build long-term, sustainable change.*

Assets must relate to the target markets. A vibrant entertainment scene can be pitched to young professional singles and couples, which may in turn trigger market demand for rehabilitated late 19th century industrial and commercial buildings, such as in Cleveland's Warehouse District or Denver's Lower Downtown (LoDo). A neighborhood with a distinctive housing stock, even with few other amenities, may be successfully marketed to a region's gay community, as in \Azalea Park in San Diego. Historic 18th century mills attractive to artists are fueling revitalization in the small industrial city of Pawtucket, RI.

D. Market the city

In order to sell a city's neighborhoods to potential residents, the way the city is perceived by the rest of its region, by its state, and even nationally, must often change. For that, a marketing campaign may be needed, using a variety of media and other strategies, and providing different layers of outreach to the groups being targeted for attention. A marketing strategy, however, is more than a marketing campaign. Promotional activities must be linked strategically to three other efforts, all essential to generating sustained neighborhood revitalization:

- Building on the city's existing asset base, including constructing new housing to target markets not served by the city's existing stock, improving the curb appeal of the city and its neighborhoods, and improving community services.

THE CITY MARKETING TOOLKIT

Marketing a city is a long-term, multifaceted strategy, which should include a wide range of separate ongoing or repeated activities, including:

- Maintaining a website offering extensive information on neighborhoods, home-buying incentives, and other matters of interest to potential residents
- Promoting the city's advantages as a place to live
- Publishing and disseminating factual information for people interested in moving to the city
- Conducting targeted marketing, directed to demographic targets or geographic areas seen as particular opportunities for the city
- Building relationships with major employers in order to create employer incentives for city residence
- Organizing homebuyer fairs and house tours
- Providing information on financial incentives offered by the city
- Working with the city to mesh its financial incentives with the marketing strategy
- Recruiting real estate agents, title insurance companies, and others to become part of the marketing effort
- Generating positive word-of-mouth advertising by engaging residents as "city ambassadors"
- Preparing and distributing themed promotional materials, such as banners, bumper stickers, and license plates
- Working with the city's neighborhoods to mesh their marketing efforts with the citywide strategy.

These elements should be carefully targeted and prioritized, beginning with those activities that offer the highest return, in order to make sure that the city gets the maximum impact from their marketing dollars.

- Supporting existing and new homebuyers with information and encouragement, as well as technical assistance and financial incentives.
- Strengthening the city's neighborhoods by supporting the growth of strong neighborhood associations and CDCs, and by fostering effective neighborhood planning efforts.

All of these efforts require meaningful partnerships between local government and other actors, including not only organizations with a direct stake in the outcome, such as realtors and CDCs, but also organizations with a more general commitment to the city, such as local foundations, historic societies, and neighborhood and civic organizations. Cities can leverage their limited resources by getting other stakeholders to take an active part, by providing financial support and taking on key responsibilities.

GOOD PRACTICE

A group of non-governmental stakeholders and the city of **Baltimore** joined forces in 1997 to create a new entity, called the LiveBaltimore Home Center, to market the city. Employing five marketing professionals and support personnel, and operating out of a downtown storefront location, LiveBaltimore carries out a dizzying variety of activities promoting Baltimore as a place to live. Its efforts are closely coordinated with city government, which sponsors a wide variety of neighborhood improvement programs and incentives for homebuyers. Although it is impossible to isolate the effect of the marketing campaign, the average home sale price in the city of Baltimore increased from $64,000 in 1998 to nearly $105,000 in 2002, an increase of 64% over five years. Other effective city marketing strategies have been mounted in **Rochester, Norfolk,** and **Philadelphia.**

The purpose of a campaign is to change the way people perceive a city. The effect is gradual, and if successful, cumulative in its impact. Investing in a marketing campaign is a long-term commitment that should be built into the city's ongoing operations, and regularly fine-tuned to track changes in the marketplace. If the campaign is closed down, or scaled back, after one, two, or even three years, it risks having been largely a waste of time, money and energy.

Marketing neighborhoods. Individual neighborhood marketing strategies can enhance and enrich a citywide marketing effort. Where a citywide marketing strategy does not exist, however, neighborhoods may want to develop independent marketing strategies. Marketing a neighborhood is much the same as marketing a city, except that it must be even more tightly focused on the particular assets of the neighborhood and the particular target groups that are likely to be most interested in those assets. Since, in most cases, the neighborhood will have limited resources to carry out the marketing effort, the marketing plan must be limited to those activities that will have the greatest impact for the smallest expenditure of time and money.

It is easy for a neighborhood marketing plan to focus on an outside target market, and neglect the people who already live in the neighborhood. That is a dangerous mistake, since the present residents not only form the base of support for any neighborhood association or CDC, but also represent a significant marketing opportunity in their own right. *Neighborhood marketing efforts should focus as much on changing the perceptions of the area's existing residents, in order to motivate them to stay in the area and buy or upgrade their present home, as on marketing the neighborhood to people outside the community.*

Principle 3: Set the table for investment

Cities must make people want to invest there, rather than elsewhere. Urban redevelopment can pose challenges not faced in suburban areas. It is often harder and more expensive to build on an urban site than on a cornfield at the region's edge, or to restore a Victorian row house than to buy a new house in a suburban development. The financial return from building or buying in the city, moreover, may be less, or at least more uncertain, than in its surrounding suburbs.

Cities that are serious about change must create a climate where people who want to invest constructively in the city are supported in their efforts. They must foster a responsive, welcoming culture within city government, build a positive environment for investment, and learn how to use public funds to build their market and 'prime the pump' for development.

STRATEGIES

A. Build a positive investment climate at city hall
B. Use public funds to fill market gaps and leverage private investment

A. Build a positive investment climate at city hall.

From large-scale developers to young couples looking to rehabilitate a vacant row house, everyone seeking to invest in a city comes to city hall for zoning variances, planning approvals, building permits, tax abatements, or other financial incentives. How they are received, and how efficient, transparent and predictable the process that they must follow will not only determine whether they persevere in their effort, but whether others follow in their footsteps. Word gets around, and a city's reputation as a good, or bad place to do business is as important as the level of financial incentives it offers. City hall should be welcoming, predictable, fair, and efficient.

Welcome potential investors. Successful businesses try to make a positive impression on their customers from the moment they step in the door. The physical appearance of the city offices serving prospective investors, how the staff deals with their inquiries and solves their problems, and the quality of the city's website and written materials, should all convey the message that the city is eager to work with the prospective investor and smooth her path, rather than place obstacles in her way. The quality of the city's website is particularly important, because it is more and more likely to be the first point of contact between prospective investors and the city.

WHAT DO WE MEAN BY INVESTORS?

An investor is anyone who wants to put their money into something that will improve the city's housing and revitalize its neighborhoods. A family looking to buy a house in the city, or rehabilitate a vacant property, is as much of an investor as a developer seeking to do a multimillion-dollar redevelopment project. Cities often make the mistake of concentrating on large developers, and paying little attention to the needs of individuals and CDCs. *In the long run, the way the city deals with the individuals seeking to put their own money in a house or business, or with the CDC seeking to revitalize a neighborhood, is as or more important than the way it deals with the high-profile developer.*

Not everyone investing money in a city is committed to the future of the community. Every city has seen the effects of short-term speculative investors who buy property to flip or milk for short-term gain, often bidding up prices to the point where individuals seeking to buy and improve property for their own use are priced out. Cities should be careful to target their incentives to individuals and organizations with a long-term commitment to their properties, whose activities will improve, rather than harm the neighborhood.

Create a predictable and transparent process. Nothing discourages investors more than uncertainty. Not knowing which office is responsible for dealing with a particular issue, what information is required before an action can be taken, what criteria are used to approve or deny an application, or when a hearing will be scheduled or a decision made, are all deterrents to investment. For each official action, prospective investors should know the following in advance:

- Who is responsible, and who can make decisions
- What information the applicant must provide in order for the city to act
- How the permitting process works, step-by-step
- What criteria are used to approve or deny an application
- What is the timeframe for action
- What procedures are available to appeal decisions, or obtain variances from what may be considered excessive or unreasonable rules or standards

The city's organizational chart and lines of accountability should be clearly spelled out and readily available. A one-stop center, where a prospective investor can find out all of the necessary information at the beginning, and which can help her as she moves through the process, can be a v*aluable part of creating a positive investment climate. This information should be posted on the city's website, along with downloadable forms for all standard applications.*

Make the process fair for everyone. Some cities maintain a de facto 'two-tier' process for approvals, in which those with political connections routinely go to the head of the line, or get the mayor to intervene with obstreperous city agencies, while those without connections languish. Such systems reinforce the status quo and ultimately discourage the steady flow of investment which the city needs. The process must be fair, with everyone having equal access to a responsive system.

GOOD PRACTICE

The city of **Milwaukee, Wisconsin** established a one-stop Development Center as the "single source of contact for people and businesses needing permits to construct or remodel buildings in the city of Milwaukee." In addition to a walk-in center, it provides a wide range of on-line information in a user-friendly fashion, enabling anyone to find out the zoning of a property, whether a permit is needed for a particular activity, etc. Once an applicant has submitted an application for approval, the applicant can track its progress online, as well. In addition, the city completely revised their zoning ordinance in 2002, placing not only the ordinance text, but also all of the zoning maps online.

Make the process efficient. The process of gaining approvals should be efficient. Time is money, even more for the small investor seeking to close on a house or a rehab loan than for the large developer. While large-scale projects involving hundreds of acres or housing units may require more extended reviews, city officials should be able to turn around small projects in days, not weeks or months. Even with the largest projects, city officials should make every effort to commit up front to a firm schedule for action – subject to the developer holding up her end – and stick to it.[12]

Get the tools right. Finally, even with the best processes in place, a city's efforts will be severely undermined if it is still using antiquated or inappropriate codes and regulations. A building code that sets unrealistically high barriers to rehabilitation, and a zoning code that makes nearly every project obtain time-consuming, expensive variances, are obstacles that even the most user-friendly staff cannot surmount. Each city should look at its codes and regulations and ask:

- Do building codes reflect modern standards and requirements?
- Do building codes provide realistic standards to encourage rehabilitation?
- Is an efficient, fair appeal process available?
- Do the zoning and land use codes permit the types of development that the city is seeking without requiring variances?
- Do the zoning and land use codes permit planned development, in order to foster large-scale redevelopment efforts?
- Does the city have clear, written procedures and standards for discretionary actions such as conveyance of city property, tax abatements, and other incentives?
- Do the procedures and standards clearly further the city's revitalization goals?

To the extent that any of the above questions cannot be readily answered in the affirmative, the regulations may be obstacles, rather than inducements to revitalization.

GOOD PRACTICE

The city of **Louisville, Kentucky** revised its zoning ordinance in 2003 to provide for form-based zoning, which permits a wide variety of compatible uses while specifying such matters as building bulk, height, etc. rather than use. A form-based zoning ordinance offers developers greater flexibility to create mixed-use options reflecting the positive features of the urban environment.

[12] City governments should seriously consider imposing internal sanctions where city staff fail to meet deadlines. Taking a cue from many private businesses, one approach might be to refund the building permit fee to any applicant who did not receive a response by the published deadline for action.

None of these changes require a city to rubber-stamp whatever a developer, a CDC, or a homebuyer is asking for. On the contrary, proposals – particularly large-scale projects or projects seeking discretionary city action or assistance – should be rigorously scrutinized, and carefully evaluated in light of the city's plans and strategies. Having a responsive and efficient process – combined with modern, clearly written, regulations and standards – makes it easier, not harder, to give proposals the attention they deserve, and ensure that all development and redevelopment are of the highest quality.

Create a positive neighborhood climate for investment. To encourage individuals and families to invest their own money in buying, rehabilitating and maintaining homes in the neighborhood, a positive climate must be created at the neighborhood level, over and above changes in city hall.

This should involve three key elements:

- A commitment to neighborhood change, reflected by a neighborhood revitalization plan, improved services, or visible public investments
- Strategies to make people aware of the rehab opportunities and incentives that are available
- Technical assistance and a supportive atmosphere for individuals undertaking rehabilitation.

Cities should consider designating specific inspectors, selected both for their understanding of rehabilitation and their customer relations skills, to work with rehabbers on a citywide or neighborhood basis. In neighborhoods with strong CDCs, the CDC should become the city's partner in creating a positive climate, by engaging constructively with developers and investors, particularly individuals and families investing in the neighborhood, to support their efforts and integrate them into the community.

B. Use public funds to fill market gaps and leverage private investment

Cities provide large amounts of money as subsidies or incentives for construction and rehabilitation of housing. In addition to the millions devoted to affordable housing, cities spend additional millions, or forego millions in tax revenues, on incentives designed to build market demand, generally with little idea of whether they are effective. Since incentives affect a city's fiscal condition and resources are always limited, cities must make sure they are used effectively and productively. Incentives are designed to influence the housing market in three ways:

- To enable people to participate in the housing market who might be unable to do so without the incentives
- To prompt people – generally homebuyers or small entrepreneurs – to buy or rehabilitate properties in locations that they would not consider without the incentives
- To prompt developers to undertake projects that they would not otherwise entertain – with respect to the type or the location of the development – without the incentives.

The first category is typically directed at lower income households, to enable them to overcome obstacles keeping them from becoming homeowners. As such, these subsidies are an important part of any affordable housing strategy. The second type of incentive is usually offered to households of any income level, in order to make properties in the city more attractive to individuals who are in a position to choose from a variety of options. The third category is a form of 'priming the pump,' by using public resources to create environments that will trigger market demand and ultimately become self-sustaining without public funds. This discussion will focus on the second and third categories of investment.

Incentives to encourage people to buy or rehabilitate properties. The most effective way to improve many neighborhoods is for homebuyers, small builders, and contractors to buy and fix up the houses in the neighborhood. As cities have found when a neighborhood becomes 'hot,' many people have the will, the energy, and the financial resources to rehabilitate such properties, coming out of the woodwork in large numbers to buy and rehabilitate properties in those areas. Providing incentives to stimulate this type of private initiative is highly desirable, for a number of reasons:

- The expenditure of public funds per unit rehabilitated is likely to be far less than with subsidized CDC or developer rehabilitation.
- Public funds that are spent can generally be provided after the rehab has already taken place, in the form of tax abatements, tax credits, or rebates, rather than being provided up front and put at risk.
- The resulting population occupying the units is likely to be more economically diverse, and more strongly committed to their new homes and their new neighborhood.

Designing incentives that are both effective and efficient requires a solid understanding of homebuyer behavior. For a homebuyer, it must make economic sense to buy a particular house. 'Economic sense,' reflects not only the purchase price and carrying cost of the house but how the buyer perceives the present and future of the city and the neighborhood. That leads to two key points:

- Incentives will work better within a larger framework of neighborhood revitalization and an active support network for people buying homes and improving properties.
- Within that framework, incentives should be used where the city is seeking to encourage people to invest in the neighborhood beyond the level the investor sees as being supported by current market conditions.

GOOD PRACTICES

A growing number of cities are providing incentives to encourage people to rehabilitate homes for owner-occupancy. In **Richmond, Virginia,** the city's Redevelopment and Housing Authority has created the Urban Pioneer Incentive Program for the Jackson Ward neighborhood, offering matching fund loans for the purchase and renovation of homes for owner-occupancy up to a maximum of $35,000. If the owner lives in the house for 7 years, the entire loan amount is forgiven. **Hartford, Connecticut** has created a similar program, called the Homeownership Appraisal Gap Funding program, providing loans of up to $40,000.

A major obstacle to persuading people to restore dilapidated or abandoned houses in many neighborhoods is their concern that the cost of rehab will exceed the value of the rehabilitated property, or that the property may lose rather than gain value in the future.[13] Incentives can be designed to overcome that obstacle, by filling the 'market gap' between the cost of rehabilitation and the subsequent value of the property. They must be large enough to truly affect the economic sense of the investor's decision rather than simply reward a decision already made, and must be carefully targeted to generate the maximum impact with the resources that are available. The following are key considerations in designing homebuyer incentives:

- Making a clear distinction between incentives designed to remove obstacles to home buying by lower income households and those designed to increase market demand on the part of households with higher incomes, or 'market demand incentives.'
- Geographically targeting market demand incentives, based on the strength of the market – as reflected by market prices and the number of days houses are on market – of different neighborhoods. They should be targeted to those neighborhoods that both need the incentives and can benefit from them.[14]
- Targeting incentives to those investments – particularly rehabilitation – that improve neighborhoods but are not supported by current market value.
- Providing informational materials that not only describe the incentives, but show how the use of the incentives will result in particular investments making economic sense.
- Targeting symbolic incentives, such as small up-front grants at closing, in ways that generate the greatest possible visible impact over and above their effect on the economics of the home buying decision. While they may not materially affect the buyer's bottom line, they can be a powerful gesture reflecting the city's desire to see people buy in the city as a whole or a particular neighborhood, which in itself may affect some home buying decisions.
- Regularly re-evaluating incentives, adjusting them over time to reflect assessment of their effectiveness as well as changes in market conditions in target neighborhoods.

In order to bridge the market gap, multiple incentives can be layered, including:

- Grants or soft loans, which may be forgiven after the owner has occupied the unit for some number of years
- Tax abatements or reductions in local property tax obligations
- Tax credits, often against state income tax obligations.

Incentives that local government can provide by itself, such as property tax abatements, are often not enough in themselves to fully address the market gap. *Governmental and civic leaders in weak market cities should work to get states to create incentives – either through direct use of state resources or through state tax credits – to foster individual investment in neighborhood revitalization.*

[13] The fear that the property will lose value in the future is best addressed by demonstrating that there is a larger, market-oriented, strategy for neighborhood change. A creative strategy to address this concern through home equity protection insurance has been pioneered by Home Headquarters, Inc. in Syracuse, NY.

[14] Incentives should only be targeted to those areas that have significant enough assets, or market potential, to suggest that the revitalization process will become self-sustaining – and the incentives no longer needed – within a relatively short period.

GOOD PRACTICE

The **Maryland** state historic rehabilitation tax credit program provides a credit against state income taxes equal to 20 percent of the rehabilitation cost, available both to commercial developers and individuals restoring historic homes for their own use. It has provided a major boost to the revitalization of a number of Baltimore areas, including the West Side, where the conversion of the abandoned Hecht Company department store into housing was made possible by use of the historic rehabilitation tax credit. State historic rehabilitation tax credits, which exist to varying degrees in 17 states, are among the most powerful incentives available to promote private investment in restoring older properties in urban areas.

'Prime the pump' for market-oriented development. Cities can and do also offer incentives to developers to build or rehabilitate buildings for 'market rate' housing, where developers perceive the market to be too weak to support development without public sector incentives. This is likely to be true of many weak market cities, where little market-rate development has taken place and many potentially attractive housing types – such as downtown lofts or waterfront condominiums – have little or no track record in the local real estate market. The same issues come up when a city is seeking large-scale market-driven development in a neighborhood that is seen as risky or untried from a market perspective. In each case, the rents or selling prices of the new units, at least initially, may not cover the full cost of developing the project. If the city wants to see the project happen, it is likely to have to offer incentives.

These incentives are considered pump priming, because they are designed to trigger previously weak or nonexistent market demand, which, once activated, will make incentives unnecessary in the future. Making them both productive and cost-effective can be very difficult. Developers will typically demand massive incentives, often well beyond what is really needed, to undertake high-risk projects. They are often far more knowledgeable about market conditions and costs, and are more aggressive negotiators than the local officials on the other side of the table. While a city should be careful not to be taken by developers, to take a hard line and refuse to provide any incentives where market conditions are poor or untested is likely to be self-defeating.

A few key ground rules for developer incentives can make this process more effective:

- Provide incentives only when the nature or location of the project is clearly designed to build a stronger market for that product or that area, making incentives unnecessary in the future.
- Base incentives, to the extent feasible, on what is really needed, and be sure that every incentive is fully justified by detailed project costs and market analysis.
- Offer incentives on a case by case basis. The incentive provided one project should not be seen or used as a precedent for future projects; market conditions change and should be regularly re-evaluated to determine the level of incentives appropriate for subsequent projects.
- Maximize those incentives that do not represent direct cash outlays, such as tax abatements, tax increment financing, fee waivers, or below-market land sales.
- Design ongoing incentives, such as tax abatement, to phase out over as short a period as possible. As a rule, no more than five years.
- Wherever feasible, particularly when the incentives take the form of cash outlays, build in provisions, such as subordinated mortgages, that will enable the municipality to recapture all or part of the funds in the future.[15]

Developer incentives can represent significant financial commitments by the municipality, either as direct cash outlays, significant tax revenues foregone, or both. Using these tools successfully demands much greater technical sophistication about real estate market conditions, real estate development, and housing finance than many weak market cities, particularly the smaller ones, have. Municipalities that want to succeed in this area should retain sophisticated staff or consultants to analyze project costs and market conditions, and negotiate fair, balanced incentive deals with sophisticated developers. Such staff or consultants will ultimately pay for their cost many times over. The municipality should always be prepared to say no and walk away from a deal if the costs become too great relative to the public benefits. That requires not only a clear understanding of the community's priorities, but a clear sense of the municipality's limits with respect to any transaction.

[15] Recapture, although not difficult on rental projects, where the recapture obligation lies with the developer/owner, is problematic with owner-occupied housing. While structuring recapture provisions for owner-occupied units raises no particularly complex technical problems, imposing recapture requirements on homebuyers may significantly compromise their expectations of appreciation, which are likely to be a significant factor in the market-building process.

Principle 4: Tailor strategies to neighborhood market dynamics

Every neighborhood is different, with its own particular strengths and weaknesses. No one solution or strategy works for all neighborhoods. While there are many different ways of looking at neighborhoods, in order to revitalize neighborhoods by rebuilding their housing markets, those neighborhoods must be evaluated from a market perspective; i.e., how well is the real estate market functioning and how can government most effectively stimulate market forces. From that perspective, nearly every weak market city shows a consistent pattern, with neighborhoods ranging along a continuum from those that are regionally competitive and largely insulated from the cycle of decline affecting the rest of the city, to those at the opposite end of the spectrum that have been heavily disinvested, with widespread population loss and abandonment, and where the real estate market is functioning poorly, if at all. Each of these neighborhoods requires a different mix of strategies, financial incentives, and investments to rebuild its market and preserve or restore neighborhood vitality.

STRATEGIES

A. Use neighborhood market dynamics to frame effective revitalization strategies
B. Adopt targeted strategies for intermediate neighborhoods at risk
C. Apply large-scale or long-term transformative strategies in disinvested areas

A. Use neighborhood market dynamics to frame effective revitalization strategies

A wide variety of information resources are available to evaluate the market dynamics of a city's neighborhoods. Census data can provide an overview of key neighborhood baseline conditions such as homeownership or vacancy rates and trends between 1990 and 2000, while a wide range of other measures are available to bring the assessment up to the present. Those measures include (with typical sources of information in parentheses):

- House sales prices and trends, including ratio of asking price to selling price, and days houses remain on the market (Multiple Listing Services, county clerk or recorder)
- Mortgage activity, particularly by conventional lenders (Home Mortgage Disclosure Act data)[16]
- Building permit activity, particularly number and value of permits taken out for home improvement and rehabilitation (municipal building or inspection department)
- Mortgage foreclosures (county clerk or recorder)
- Tax delinquency and tax foreclosure (county or municipal clerk, treasurer or tax collector)
- Buildings demolished (municipal building or inspection department)
- Vacant buildings (municipal planning agency or field inspection).[17]

Depending on the availability of information and the level of access to sophisticated analytical tools, the analysis can range from a simple tallying of indicators to sophisticated statistical techniques such as cluster analysis, which seek to identify subtle patterns reflecting relationships between the indicators.

Although some of the findings of a data-driven neighborhood market analysis may appear intuitively obvious to local officials and CDC personnel, others may surprise even the most experienced observers.[18] Any city seeking to design strategies to rebuild the local housing market should carry out such an analysis, which is a valuable tool for identifying neighborhood problems and opportunities, designing effective strategies, and targeting resources more productively. While in some cases, the analysis can be done in-house by a municipality or CDC, an outside entity, such as a local university, will often be needed to perform the study. In either case, it is critical that local officials, CDC staff, and community leaders who will be involved in framing and implementing strategies for the area be engaged in the process, so that they fully understand the assumptions being made, and the findings and implications of the analysis.

Given their value, many cities have undertaken neighborhood analyses. Many have found that neighborhoods can be clustered into a few broad

[16] In some areas reliance on MLS and HMDA data sources may underestimate the level of market activity, since they may not capture the level of activity in the more informal market that may exist in areas where Realtors are less active and many transactions may take place with seller or other financing.

[17] Code enforcement records are also available, and may be useful in some cases. In cities that have complaint-driven code enforcement systems, however, code enforcement activity may not reflect variations in actual conditions by neighborhood accurately enough to be a useful indicator.

[18] A high homeownership rate may appear, in and of itself, to be a positive factor; if it is found in conjunction with high vacancy rates, and low or declining numbers of new home buyers, however, it can be an indicator of significant risk of future decline.

categories, and that this clustering can be useful for exploring and framing plans and policies that appropriately address the market challenges and opportunities of each neighborhood. As such, clustering, or the development of neighborhood typologies, is not a basis for rationing attention and resources, but for focusing those resources most constructively. Although neighborhood typologies provide a broad framework for planning, the investment strategies for any given neighborhood should be based on the particular market conditions of that neighborhood.

Minneapolis has broken down its 81 neighborhoods into three categories for its Neighborhood Revitalization Program:

- **Protection:** areas that are already stable and successful. Here the goal is to maintain the existing housing stock and improve services.
- **Revitalization:** areas with an aging but still viable housing stock, often close to declining industrial areas. Here the goal is to invest strategically to enhance desirability of the housing and to encourage stability.
- **Redirection:** areas with declining incomes and major social service needs, or whose housing stock could not compete with housing elsewhere in the city or metro area. The goal here is to work toward major landscape transformation and attract much needed new investment.

The District of Columbia has adopted a similar model for strategic planning purposes, while Philadelphia created a six-level market typology of its neighborhoods, characterizing them as Regional Choice, High Value/Appreciating, Steady, Transitional, Distressed, and Reclamation areas. Baltimore uses a four-level typology for their neighborhood planning activities. Both the Baltimore and Philadelphia models can be seen as refinements of the three-level breakdown used in Minneapolis and DC. Those three neighborhood 'types' can be more fully described as follows:

Stable or regionally competitive neighborhoods. These are the city's strongest neighborhoods from a market standpoint. These are areas in which the housing market is working reasonably well, and in which not only is there a steady demand for the housing in the area, but prices are equal to or greater than replacement or rehabilitation cost. In these areas, the city's principal responsibility is to ensure that they do not lose their edge by providing a high quality of public services and facilities. While some typologies may place all stable neighborhoods into a single category, others make the important distinction between areas in which prices are clearly high enough to motivate private investment and prevent deterioration, and those areas – although equally stable at present – that have lower house values, which may signal the possibility of future deterioration.

Intermediate neighborhoods. Neighborhoods in which the market is still viable at some level today but is visibly under threat are common in weak market cities. They are areas where maintenance may be slipping, homeownership rates may be declining, and abandoned properties are beginning to appear on otherwise sound city blocks. These neighborhoods usually cover much more of the city than do areas of widespread abandonment. In 2001, Philadelphia had nearly 6,000 city blocks containing one or two abandoned properties, nearly 2,000 with three to five, but less than 1,000 with six or more. While this last group contained a majority of the city's abandoned properties, it represented only 3% of the city's residential blocks, compared to nearly 30% of the city's blocks with one to five abandoned properties.

There are many different types of intermediate area, such as those in which the housing market is still relatively strong and destabilization appears just to be beginning, or those in which house values have fallen significantly below replacement or rehabilitation cost and evidence of destabilization is widespread, but not yet pervasive. In other areas, housing prices may be rising, possibly as a result of speculation, but not enough to trigger significant private investment.

These neighborhoods require carefully targeted strategies to reverse decline and restore the area's still intact fabric. In such areas, housing investment is far more likely to take the form of small-scale infill and rehabilitation than large-scale construction. It may emphasize efforts to encourage existing homeowners to improve their properties, and encourage others to come into the neighborhood and buy and restore substandard or abandoned properties for their own use. These strategies, being scattered and small in scale, rarely attract developer interest and offer few photo opportunities, yet often represent a highly cost-effective use of discretionary housing resources available to local government and CDCs.

Disinvested areas. The third category is made up of those areas in need of more large-scale investment. While such areas often have pockets of strength, and assets that can serve as the nuclei for redevelopment, the scale of deterioration and abandonment is such that more ambitious efforts at rebuilding, either through large-scale development or through sustained and cumulative smaller revitalization efforts over a long period are needed to create the framework for revitalization. Some revitalization efforts have included giving the neighborhood a new identity as a marketing strategy, as Indianapolis did when it renamed King's Park Fall Creek Place. Such an action may seem trivial, and perhaps even offensive to some long-time residents, yet it may be an important step in building the market in the face of long-standing negative perceptions of the area.

The following discussion focuses on revitalization strategies for what we have characterized above as intermediate and disinvested areas, which require the most public intervention.

B. Adopt targeted strategies for intermediate neighborhoods at risk

Viable but threatened neighborhoods are critical to any city's revitalization strategy, since their decline, with the resulting loss of property value, deterioration, loss of stable homeowners, and ultimate abandonment, will have a dramatic negative impact on the city as a whole. The cost of stabilizing such an area may be substantially less, moreover, than the cost of bringing back an area where the fabric of the community must be rebuilt from the ground up.

Go after vacant houses. Tackling the few vacant houses on a largely occupied block is critical. If left untended, they will gradually undermine the rest of the block. Strategies for boarded houses may require local government to take control through tax foreclosure or eminent domain, and may involve subsequent rehabilitation by a CDC, or offering properties with attractive financial incentives to families that will rehabilitate the properties for their own occupancy. A number of cities such as Rochester have worked with the HUD Asset Control Area program to expedite their gaining control of houses foreclosed by HUD, and restoring them to productive use. All of these activities can be tied to marketing activities designed to encourage people to come into the neighborhood and buy and restore substandard or abandoned properties for their own use.

GOOD PRACTICE

In **Baltimore**, the Patterson Park Community Development Corporation has initiated a systematic effort to gain control of the vacant properties in the city's Patterson Park neighborhood. They rehabilitate the properties, and either sell them to homeowners or maintain them as quality rental housing, depending on the market conditions of the immediate area and the needs of the community. Since 1996, they have rehabilitated over 200 houses, leading to millions in private investment, dramatic increases in property values, and higher tax revenues for the city of Baltimore.

Focus on scattered-site/small-scale strategies. Housing investment in intermediate areas should generally take the form of small-scale infill and rehabilitation rather than large-scale new construction. A typical block in such an area may contain a large number of houses in good condition, a smaller number of occupied houses in need of repair, and a still smaller number of boarded houses or vacant lots. Local government should work with CDCs and reputable small local contractors and developers, and provide financial and other incentives to encourage individual households, both neighborhood residents and new in-migrants, to buy, rehabilitate, and occupy homes in the area. Occupied houses in need of repair should be addressed through assistance to struggling homeowners or programs to buy out irresponsible absentee owners and fix up properties for resale to homebuyers. Carefully targeted code enforcement and nuisance abatement, coupled with assistance to owners to improve their properties, can be an important strategy in intermediate areas, particularly within a framework of ongoing revitalization efforts.

GOOD PRACTICE

In **Orange, New Jersey,** HANDS, Inc. has been carrying out a systematic strategy of identifying, gaining control of, and rehabilitating scattered vacant properties in troubled neighborhoods for home ownership. HANDS works aggressively to gain title to properties by using a variety of strategies, including buying tax liens, intervening in mortgage foreclosures, and buying HUD properties. HANDS' strategy has stabilized three neighborhoods in the city, and reduced the abandonment rate to less than one-third of its prior level.

Enhance neighborhood curb appeal. Efforts to improve housing conditions should be combined with beautification activities to both foster neighborhood pride and enhance the area's curb appeal, such as façade grants, minimal landscape treatment of vacant lots, street tree plantings, or provision of attractive uniform front yard fencing along block faces. Scattered obnoxious uses, such as poorly maintained used car lots, body shops, or similar activities, should be targeted for removal.

Use larger projects as anchors. While most activities in transitional neighborhoods will be small in scale, and gradual in their impact, some contain opportunities for "anchor projects" that can stabilize the neighborhood and add a community asset. These include large apartment buildings, surplus school or institutional buildings, or vacant or underutilized commercial and industrial buildings, many of which have become highly visible eyesores and sources of neighborhood blight. Converting such buildings into attractive housing or mixed-use facilities can provide a neighborhood with a much-needed shot in the arm, leveraging further investment in surrounding properties. Wherever possible, such housing developments should be mixed-income housing, not limited to lower income units but containing a substantial percentage of units available without regard to household income.

GOOD PRACTICE

The Circle F neighborhood in **Trenton, New Jersey,** grew up around a large factory built in phases, beginning in 1880. When it closed in 1990, the neighborhood began to decline, both because of the loss of jobs and the blighting effect of the vacant factory. The city, working with a nonprofit developer, divided the property, converting one part into a showcase senior citizens housing complex, and the balance into light industrial space, which provided over 100 jobs for area residents. Simultaneously, the city initiated a neighborhood preservation program in the area, providing home improvement grants and loans for owners, and enhancing neighborhood streetscapes.

Finally, any strategy to preserve or improve viable neighborhoods at risk must recognize that one of their greatest long-term assets are the many families who already live there, who are steadily improving their economic conditions. Holding onto these families, at the same time that new families are being attracted to the area, should be a priority for every neighborhood.

C. Apply large-scale or long-term transformative strategies in disinvested areas

Weak market cities also often contain areas that have been disinvested to the point where more limited revitalization strategies may no longer be relevant. These include not only heavily disinvested residential neighborhoods, but also former industrial areas, now empty or nearly so. While they may occupy a small part of most cities' total area, they contain a disproportionate share of their abandoned properties, and are widely seen as emblematic of urban distress. Such areas may be candidates for large-scale redevelopment projects, particularly where they contain large expanses of vacant land as a result of sustained abandonment, or long-term transformative strategies.

Large-scale projects can create important opportunities for a city by:

- Changing the character of an area and the way it is perceived by the marketplace.
- Responding to market demand by creating new housing products and settings not available elsewhere in the city's housing market.
- Creating 'move up' opportunities within the city, retaining upwardly mobile city households.
- Engaging regional and national developers and investors in the city.

Focusing large-scale strategies for maximum impact. Whatever an area may offer in terms of location and other assets, its redevelopment is unlikely to be successful unless the community has a tightly and effectively focused and market-driven redevelopment strategy. In framing a redevelopment strategy, the city and its partners should answer the following questions:

- Which groups make up the potential market for this development?
- What type of housing products will be most attractive to the groups making up the market?
- What design and site planning features will render the products most attractive to the market and build a strong, sustainable community?
- What are the area's location assets, and how should the project be planned to best take advantage of them?
- What other assets – parks, waterfront, major institutions – does the area offer, and how should they be integrated into the area's redevelopment?
- What other amenities or features – open space, shopping, etc. – are necessary or desirable in order to draw the market and build the community?
- How should the development be phased for greatest success?

While a well-conceived redevelopment project can build market demand, that demand is not unlimited. Overbuilding runs the risk not only of creating excess supply, but of cannibalizing demand from other parts of the community, destabilizing viable neighborhoods that may already be at risk. Where the city has multiple candidates for large-scale development, they should be evaluated using the criteria above and the following factors:

- What redevelopment resources are available to the municipality and its partners? Most redevelopment projects require large amounts of front-end public sector time and money, both of which are usually in limited supply.

- How extensive is the market demand for the new housing products being proposed?
- Which areas offer the best mix of assets and opportunities to build or create market demand?
- Which areas best complement other revitalization activities or priorities of the community, including strengthening viable neighborhoods at risk?

Targeting can help ensure both that projects with strong potential for success are selected, and that the scope of the city's undertakings does not exceed either the market demand or the public resources that are available. The decision to commit the resources needed to plan, design and carry out a successful large-scale redevelopment project should only be made after careful assessment of the opportunities and benefits the project offers, as well as the opportunity costs of using scarce resources which could be used elsewhere

Long-term cumulative investment. Large-scale, developer-driven redevelopment is not the only route, even for severely disinvested areas. A strategy based on the cumulative effect of smaller projects and activities taking place over a sustained period, which may be 10 or more years, can be a viable alternative where a CDC exists that not only has a commitment to a particular neighborhood, but also builds and sustains the capacity to carry out its strategy over many years, such as New Community Corporation in Newark, or Slavic Village in Cleveland. Such CDCs represent valuable community assets. Public sector and foundation funders should do their utmost to ensure that they have access to consistent long-term funding streams, as well as support for neighborhood revitalization planning activities, to enable them both to focus their neighborhood strategy and sustain it for the long haul.

Those involved in transforming disinvested areas must be constantly aware of the dual goals involved: successful market change and community building. While a strong community cannot be built without building a strong market, market success alone does not ensure a strong community. If not grounded in a solid long-term strategy, the success of a market-oriented large-scale development can be a transitory phenomenon, conferring no lasting benefits on the neighborhood or the city. This is particularly true if its marketability is artificially propped up with deep tax abatements and other subsidies, without a solid strategy to build true market value within the neighborhood as a whole over time.

Similarly, a development that is imposed on a neighborhood without resident engagement, or which displaces large numbers of residents, can easily become an enclave conferring little benefit on the neighborhood it is in, but not of. Local governments cannot rely on developers, many of whom are more concerned with short-term gains than long-term neighborhood change and stability, to ensure that a strong, stable, and sustainable community will come into being. Local government and its partners must make sure that a sound long-term strategy for each disinvested area is in place from the beginning, and is followed as the redevelopment process moves forward.

Principle 5: Build on assets

Building on or creating community assets lies at the heart of any revitalization strategy. Assets are what give people a reason to live in a neighborhood or community, and invest their time and money in the future of the area. Assets can take many forms, including:

- The quality of the housing stock and the physical environment of a neighborhood
- The location of a neighborhood, and its proximity to desirable community-wide or regional features
- The presence of distinct amenities or attractions, such as a park, magnet school, or transit hub

TABLE 5: REPRESENTATIVE LARGE-SCALE REDEVELOPMENT PROJECTS

PROJECT	ASSET BASE	FOCUS	SPECIAL FEATURES
Fall Creek Place, Indianapolis	• Adjacent to riverfront • Historic Victorian housing stock	• Residential development • Mix of new construction and rehabilitation	• Partnership of city, CDC, historic preservation groups, and private developers • Utilized HUD Homeownership Zone Grant
Fruitvale, Oakland	• Adjacent to BART (Bay Area Rapid Transit) station	• Mixed-use development • New construction	• Initiative came from neighborhood-based CDC • Required creative financing partnership with city, BART and private lenders
Brewerytown, Philadelphia	• Adjacent to Fairmount Park • Close to rapidly-appreciating residential area south of redevelopment area • Distinctive older industrial buildings	• Residential development • Mix of adaptive reuse and new construction	• Partnership between city and major private developer • Received support from Philadelphia Neighborhood Transformation Initiative

- The level of social capital in the neighborhood, including the presence of strong civic and block associations
- The presence of key institutions, such as hospitals, universities, or religious and cultural institutions
- The residents of the neighborhood
- The presence of one or more strong CDCs.

There are a variety of strategies cities can use to leverage their assets. The effectiveness of any strategy, however, will be powerfully influenced by the location of the area.

STRATEGIES

- **Think location, location, location.**
- **Enlist key institutions as partners in revitalization.**
- **Integrate housing investments with other neighborhood investments.**

A. Think location, location, location

The most important assets for revitalization often have to do with a neighborhood's location and its relationship to key physical features of the larger environment. This is particularly important when addressing the revitalization of a severely disinvested area, which may have few remaining assets within its boundaries. Some of the specific assets that can be the basis for successful redevelopment are:

- Proximity to a water body, such as a lake, stream, or canal
- Proximity to a substantial open space area, such as a park or greenway
- Proximity to a transit hub or rapid transit stop
- Proximity to a major institution, in particular a residential college or university
- Proximity to a strong or rapidly improving neighborhood
- Proximity to downtown employment and other attractions such as an entertainment district
- Distinctive, existing structures or complexes such as a cluster of 19th century mill buildings

Analyzing these factors is a critical step in developing revitalization plans, and determining how resources should be targeted. Although it is best to build on the location assets that already exist, it is sometimes possible to create a substantial asset where there are compelling reasons to pursue the revitalization of a particular area. A park could be created from vacant land or a brownfield site, or it might be possible to work with a transit agency to locate a light rail stop within an area slated for redevelopment.

B. Enlist key institutions as partners in revitalization

Major institutions or corporations within or adjacent to a neighborhood are key partners in a neighborhood revitalization effort. Such institutions, particularly hospitals and universities, have a big stake in the future of their neighborhood, which affects not only the value of their holdings but their stature as an institution. While institutions can be involved in a wide range of activities beyond housing-related ones, including valuable roles in strengthening neighborhood schools and creating job and training opportunities, there are also a number of important roles they can play in revitalizing the neighborhood's housing stock, directly or indirectly, including:

- Support for community planning efforts
- Support for neighborhood beautification efforts, including efforts to improve the neighborhood's 'curb appeal'
- Investment in real estate development, directly or through CDCs
- The creation of homebuyer or rehabilitation incentives, particularly for their workforce.

GOOD PRACTICE

Yale University in **New Haven, Connecticut** has operated a program since 1994 to assist Yale employees to buy homes in targeted neighborhoods in the city. Yale pays buyers a total of $25,000, of which $7,000 is provided at closing, and the remaining $18,000 in nine annual payments of $2,000 as long as the buyer remains in the home. The program is offered to any permanent employee at any level working more than 20 hours per week, and has led to nearly 600 Yale employees buying homes in the city. It has had a positive effect on the city's housing market as a whole, and particularly on the Dwight neighborhood, immediately north of the Yale campus.

C. Link housing investments to other neighborhood investments

A neighborhood is more than housing. A strong neighborhood contains attractive, well-maintained open spaces, schools, and other community amenities, all working together to create the quality of life that makes people of diverse incomes and backgrounds want to live there. *The most effective housing investments must not only be planned and designed appropriately, but must be* *tied to other efforts and investments taking place in the same neighborhood.* By linking housing to other investments, additional resources are leveraged and additional value created for the housing and for the neighborhood as a whole.

This strategy goes both ways. Not only should local governments and CDCs consciously link housing investments to other activities taking place in the neighborhood, but it is important that other entities planning non-housing investments in a neighborhood, such as school districts, transit authorities, and others consider how their investments can be used to enhance housing values and housing opportunities, and form partnerships wherever possible with CDCs and others to integrate housing into their plans.

Four areas offer particularly strong synergies with housing investment:

- Open space
- Schools
- Transit stops and hubs
- Commercial development.

Making these connections is often difficult. It requires that organizations not used to working together, such as school districts, transportation agencies, or economic development organizations, form partnerships and adapt their agendas to community development goals framed by the city, or by a CDC or neighborhood organization.

Open space. Building new housing next to a restored city park adds to the value of the housing and provides the park with a built-in constituency. Alternatively, creating a new park or open space designed to fit the recreational and open space needs of the community in conjunction with new or rehabilitated housing enhances the value of the housing, while providing an important amenity for the community. Where a park is being restored or a new park created, planners should identify rehabilitation opportunities or housing sites that can be developed around the park. Wherever possible, new housing should be designed and planned in conjunction with the planning of new open space facilities, to ensure that the spatial relationship between the housing and the open space is mutually supportive.

Depending on the character of the community and the availability of land, open space initiatives that can be linked to housing investments can include any or all of the following:

- Squares and plazas
- Mini-parks, playgrounds and sitting areas
- Community greens or commons
- Neighborhood parks and greenways
- Waterfront parks or promenades
- City or regional parks and greenways.

GOOD PRACTICE

Hope Communities redeveloped a highly crime-ridden block in a low-income neighborhood in **Minneapolis** with rental housing around an internal green commons, including walkways, a playground, a community garden, and a pavilion on a concrete pad left from an old garage. The site is designed so that the open spaces are transparent to observation by the residents, while the area is accessible from the outside to permit neighborhood children to use the play areas. The executive director of Hope Communities notes that, although the community is both low income and racially and ethnically diverse, "the family lives are stable because the kids are happy – the stability in family life translates to stability on the block – the renters never want to leave."

Many states provide funds for open space improvements. It is also often possible to find private sources of funds such as foundations or corporations for open space projects, resources that might not be available for other neighborhood revitalization activities.

An open space feature, however, is not in itself always an asset. Proximity to a river is meaningless if the riverbank is covered with unattractive buildings, or if access is blocked by a highway. A park is not an asset if it is poorly maintained or a locus of criminal activity. Even under these circumstances, however, it represents a potential asset. The city's task is to turn it into a genuine asset that can contribute to the revitalization of the neighborhood.

Schools. Many cities and states, including California, Ohio, and New Jersey, have initiated large-scale school rebuilding programs, reconstructing and expanding existing schools, and building new schools to replace older obsolete ones. These projects offer powerful synergies with both housing and open space investments, helping to make the neighborhood more appealing to families with small children. Schools can be linked to housing in a number of different ways:

- Siting of new housing and new schools can be linked, to enhance the value and appeal of the housing, using both to strengthen and stabilize the neighborhood.
- New schools can be constructed or upgraded within large-scale redevelopment projects, as was done in Hope VI developments in Pittsburgh and

St. Louis, providing a valuable anchor or asset to those projects.

- Schools can be developed as community schools, containing facilities that enhance their benefit and utility to the surrounding neighborhood. Such facilities, depending on the community's needs, can include libraries, health centers, senior citizen centers, recreation facilities, and community meeting space.
- Schools and housing – as well as complementary community facilities – can be combined on a single site, as is being done in the Los Angeles area. This is particularly valuable in densely developed urban areas, where creating a site for a new school may require the displacement of large numbers of neighborhood residents.

In order to link school construction and housing investment, local officials and CDCs must first create a working relationship with the local school district. This is often difficult, since school districts are often uncomfortable with mixed-use development, and unaccustomed to working in partnerships with others, but it is critically important. It may also be necessary to get changes made to state education department policies or regulations before school construction can truly be integrated into the neighborhood's revitalization. The experience of St. Louis' Jefferson School, moreover, makes clear that physical improvements are only part of the picture. The quality of the educational program offered at the local school is critical to the long-term stability of the neighborhood.

GOOD PRACTICE

As a part of the Murphy Park development, a 413-unit HOPE VI development in **St. Louis,** Richard Baron, the developer, raised $5 million in private funds to modernize the Jefferson School in the neighborhood, and fostered a new instructional program in the school including smaller classes, a new curriculum, teacher continuity, and year-round schooling. The effort has been highly successful. The development has attracted an increasingly diverse population, while both enrollment and student test scores at the Jefferson School have risen significantly.

Transit stops and hubs. Proximity to good public transportation, particularly rail or light rail service, is a major asset for residential development, not only in urban areas but in suburban areas, where building 'transit villages' around railroad stations has become a profitable real estate development strategy. Transit stops, where they exist in inner city neighborhoods, are often underutilized and include large areas used for surface parking for commuters. They represent valuable revitalization opportunities, both for mixed-income residential development and for integrating housing and commercial development.

GOOD PRACTICES

The Belmont Dairy project in **Portland, Oregon**, took advantage of a trolley stop to redevelop a site that had sat abandoned for many years, attracting graffiti and squatters, and destabilizing both the commercial area in which it was located and the adjacent neighborhood. Using part of the original buildings and adding new structures to the site, the development opened its first phase in 1996 with 85 mixed-income units and 26,000 square feet of retail space. Subsequent phases have added 30 townhouses, with 22 live/work units in planning.

In **Columbus, Ohio**, the Linden Transit Center was developed by the Central Ohio Transit Authority as a key element in the redevelopment of the surrounding Four Corners area, in partnership with the Greater Linden Development Corporation. The joint effort has been a major stimulus to economic development in the surrounding area.

Where a transit stop does not exist, it may be possible to create one. While creating new railroad stations is rarely feasible, it is often possible to create new light rail stops on an existing line with the cooperation of the transit agency. By adding a light rail stop, a major neighborhood asset can be created at a cost that is modest by comparison to the benefits it will generate. Many areas are planning new light rail or bus rapid transit[19] lines, or expanding existing systems. Where this is happening, local officials and CDCs should be at the table, advocating for new routes that will serve neighborhoods slated for revitalization, and that stations be located where they will further the revitalization of those neighborhoods by accommodating new residential or mixed-use projects.[20]

Commercial development. Everyone shops, and many retailers have discovered in recent years that urban neighborhoods can be desirable retail markets. In some cities, traditional commercial corridors have been reclaimed, while elsewhere, new shopping centers and supermarkets have been

[19] Bus rapid transit is a recent mode of transportation in which buses run along a dedicated right of way, with a limited number of stops and elevated platforms designed to move passengers quickly off and on the bus. It offers many of the advantages of light rail, while requiring substantially less initial fixed capital investment. Whether it will be accepted by the American riding public as the equivalent of light rail still remains to be seen.

constructed. Linking these ventures to housing activities going on in the same area can both enhance the value of the housing in the area and strengthen the market for the retail stores being created. Depending on the character of a commercial development, a variety of opportunities may be present to integrate housing into the development:

- Along commercial corridors, older buildings can be rehabilitated to create or restore housing on upper floors, while new multi-story infill buildings, with ground floor retail and upper floor residential uses can be constructed. In areas where the corridor contains excess commercial frontage, sites can be redeveloped with moderate to high-density residential uses, such as senior citizen housing or more upscale rental housing, which both benefit from proximity to retail and enhance the retail market.[21]
- New commercial centers can be constructed as mixed-use developments, integrating housing into the site plan either as separate structures or by building multi-story buildings with ground floor retail.
- Sites adjacent to new commercial centers can be developed with moderate- to high-density housing, taking advantage of their proximity to the commercial center.[22]
- 50's and 60's commercial strips, sometimes dubbed 'grayfields', which are often found where a major arterial street runs through an urban neighborhood, can be redeveloped by replacing obsolete shopping facilities with new mixed-use development.

GOOD PRACTICE

In **Chicago**, the Greater Southwest Development Corporation has revitalized 63rd Street, the traditional neighborhood commercial corridor, by combining a strategy of fostering small-scale retail uses with use of other properties along 63rd street for medium-density housing, particularly senior citizen housing and focusing on housing rehabilitation along the residential blocks in close proximity to 63rd street. The commercial corridor has maintained its viability, with strong stores and a low commercial vacancy rate.

Even where they may not specifically integrate housing into their plans, new shopping centers in urban neighborhoods should be designed to be a part of the neighborhood. Their design should be compatible with the area's vernacular, and they should be sited so that they are pedestrian-friendly, with parking areas broken up and landscaped to render the stores easily accessible to foot traffic from the neighborhood. Supermarkets or big box stores surrounded by parking, or containing blank walls facing streets and residential areas, while offering immediate benefits, will ultimately act to hold back the neighborhood's ability to sustain improvement.

Principle 6: Build quality into all physical investments

Any community that is serious about changing its image, and becoming more attractive to households with the ability to choose where they live, should make sure that all new development, as well as rehabilitation and adaptive reuse projects, meets the highest standards of planning, design, and construction. While cities have little control over regional or national factors, they can control what takes place within the city. By following simple principles of good planning and design, cities can use design quality as a strategy to improve the city's quality of life and as a competitive selling point within its region.

How well a development is planned, designed, and constructed, whether one house or a major new development, will have a powerful impact on whether it enhances the quality and adds vitality to the neighborhood, or whether it merely adds to today's unsatisfactory status quo. "Off the shelf" modular houses, cheaply constructed speculative townhouses, poorly sited or treeless subdivisions, and seas of asphalt parking lots all send a message that the community has no faith in its future, and no aspiration to become a better place to live. By respecting the community's architectural heritage, and making sure that every new development or investment adds quality to its environment, cities can

[20] While bus stops, and bus hubs (bus stops or terminals served by multiple bus routes to permit riders to transfer between routes) are neighborhood assets in that they facilitate residents' access to employment opportunities, they rarely appear to represent significant assets for purposes of siting housing developments. The Linden Transit Center/4 Corners Project in Columbus, Ohio described above is a notable exception, particularly because of the way in which it was integrated into a larger neighborhood revitalization and economic development framework.

[21] Many older cities contain far more linear feet of frontage along traditional commercial corridors than is needed to meet the shopping needs of today's population. In many cases, all or most of these frontage parcels are still zoned for commercial use. Consolidating commercial activities into viable nodes, and reusing the remaining land along the corridors for complementary purposes, is an important element in the land use planning of older cities.

[22] While this is very desirable in principle, and certainly feasible in many cases, it can be difficult to accomplish in light of the requirements of modern shopping centers with respect to truck traffic and trash disposal. As a result, a scheme that attempts to integrate a shopping center with new housing must be carefully designed to ensure that these features of the shopping center do not create significant problems for the residents of adjacent properties.

not only fuel their revitalization, but increase the likelihood of long-term, sustainable change in the community.

STRATEGIES

A. Respect the past.
B. Make sure each project adds value and quality to the community.
C. Remember the spaces between the buildings.
D. Enforce design standards sensitively but seriously.

A. Respect the past

Quality planning and design begins – but does not end – with respect for the past. Most urban rebuilding takes place within existing neighborhood contexts, usually established in the late 19th or early 20th century. In many urban neighborhoods, the historic fabric, with its rich architectural heritage, is a significant asset. Few areas, even in the most distressed parts of the city, have been undone to the point where their character no longer matters. The features of each neighborhood or block should be categorized and defined, and used as the framework for future development.

Respect for the character of a neighborhood does not require new development to be a literal imitation of existing development patterns. Consistent does not mean identical, but rather that the new and the old exist in a harmonious relationship with one another. Where the existing fabric is still in place, and where it can be adapted readily to contemporary market preferences, creating modern reinterpretations of traditional vernacular designs is most appropriate. This is particularly important in infill locations where new buildings are added to a block where existing buildings will remain. How the new houses are sited on the block, so that they clearly fit into their setting, is as critical as their design. Every new development should 'belong' to the community, and reflect – through its materials, the quality of the streetscape or distinctive details – the positive features of that community.

GOOD PRACTICE

Working with the city and a local CDC, students and faculty of the School of Architecture and Planning at the State University of New York at **Buffalo** developed model housing design guidelines for the city's Lower West Side neighborhood, analyzing the design vocabulary of the existing houses in the area and framing guidelines to ensure that new houses would be compatible with the existing neighborhood fabric. The guidelines covered 10 overall design features characterizing the area:

- Density, reflected in lot size and frontage patterns
- Mix of new and old housing
- Continuous sidewalk and streetscape amenities
- Landscaping and fencing
- Porches
- Materials
- Garages
- Roof pitches and elevation elements
- Window proportions
- Details

The guidelines were then applied in a model demonstration project within the neighborhood.

While these principles apply to any neighborhood, they are particularly vital in areas of distinctive historic or architectural character. These areas, which are easily undermined by poor or incompatible development, should be cherished, both for how they reflect the city's past, and for their value to enhance the city's future. Areas of distinctive, largely intact historic or architectural character are among the most powerful assets that older cities have to build their markets. A city that allows the character of those areas to be dissipated through incompatible or poor quality development is squandering a major resource.

GOOD PRACTICES

A good way to encourage good design in new developments is by preparing a pattern book, based on the local design vernacular, showing how to design houses that are compatible with existing neighborhood character. An excellent example is the pattern book prepared for **Norfolk, Virginia** by Urban Design Associates, A Pattern Book for Norfolk Neighborhoods. Another good approach is by developing design guidelines.

Springfield, Missouri developed guidelines for construction and rehabilitation of single-family homes and duplexes in its older neighborhoods. By keeping them simple and straightforward, they found rapid acceptance on the part of most builders in the community.

B. Make sure each project adds value and quality to the community

Individual projects in a neighborhood are not islands unto themselves, but parts of a cumulative process of neighborhood change. Design choices made on one project not only affect that project, but all those that follow. The choices made for each project, how it makes use of its site and its relationship to its surroundings, simultaneously create and close off future rebuilding opportunities in the rest of the neighborhood.

Many projects routinely approved in urban neighborhoods can do long-term harm to their environment by foreclosing future opportunities to improve the area's quality of life and its appeal as a community of choice. Residential buildings hidden behind a sea of parking, or low-end commercial uses such as fast food outlets or service stations along traditional pedestrian-oriented urban shopping streets all reduce the future economic potential of the street and the neighborhood as a whole.[23] Other design choices, such as excessive setbacks, the use of unattractive or incompatible building materials have a similar, although less dramatic impact.

Where the neighborhood fabric is largely intact, and housing is being created through rehab or small-scale infill, development should seek to restore the existing fabric through sensitive use of design guidelines and standards. Where demolition has created large open areas, or where the existing housing is unsuitable for rehabilitation and large-scale redevelopment is being planned, design guidelines in themselves are not enough. In those areas, there is no substitute for a strong neighborhood plan to provide a framework for recreating the neighborhood on the basis of new design principles, oriented to market-building strategies and the goal of creating an economically diverse community of choice. The plan should set forth all of the following that may be applicable to the area:

- Siting principles, including how parking is provided, for all new developments[24]
- Delineation of areas that are suitable for rehabilitation and infill, and design/siting standards for infill development
- Design guidelines for housing prototypes, identifying which types are most appropriate for which parts of the neighborhood
- Standards for energy efficiency, indoor air quality and resource efficiency in new buildings
- Location and conceptual layout of future major facilities that will affect the orientation of residential development, including:
  - New or substantially reconfigured schools or other community facilities
  - New or substantially reconfigured parks and recreational facilities
  - Open space nodes such as plazas or monuments
- New commercial facilities or reconfiguration of existing commercial areas
- Changes in street patterns and reconfiguration of existing streets, such as widening, creation of green street medians, major changes to parking patterns.

The plan should not specify the actual layout or design of any specific site. It provides a framework to ensure that the design of each site will contribute to a future in which new developments will become prized parts of the community, rather than an embarrassment to future generations.

C. Remember the spaces between the buildings

The public and private spaces between new buildings, and between new and old buildings, affect the character of the neighborhood as much as the buildings themselves. The fabric of many older areas is frayed from decades of decline, with sound and suitable buildings interspersed with unattractive or incompatible structures, vacant lots, ill-kept yards and fences, and neglected, poorly maintained, streets and sidewalks. Any strategy that is using housing investment to improve the quality of a neighborhood, in addition to ensuring quality design and siting of infill housing, should also address the spaces in between, including:

- Simple landscape treatments for vacant lots, particularly in gateways and other highly visible locations
- Tree plantings along streets and roads, in front yards, and in vacant lots
- Façade improvements for structurally sound and compatible, but neglected, buildings
- Assistance for existing property owners to upgrade their properties, including façade improvements
- Screening and fencing for unattractive or incompatible uses, such as body shops or junkyards, where they cannot – at this point – be removed
- Provision of uniform decorative fencing to replace the customary jumble of front yard fencing along many urban neighborhood blocks
- Streetscape improvements, particularly along major arteries
- Curb and sidewalk improvements

[23] While such low-end facilities may appeal to local officials as a way of getting a quick ratable, generally without requiring any public financial assistance or tax abatement, the benefits of those ratables are likely to be more than offset in the long run by the extent to which they undermine potential appreciation within the surrounding area, or even devalue it.

[24] Parking is often a difficult issue for urban housing, whether small-scale infill or large-scale redevelopment. While it is important to acknowledge the need for parking and provide it in convenient locations, it is equally important not to allow the provision of parking to undermine other important planning and design goals, such as creating safe and usable pedestrian environments, and attractive, human scale, street frontages.

- Improvements to parks and open spaces in the area.

These improvements enhance the value of the neighborhood, as well as the value of the new housing being constructed. They also demonstrate to the existing residents of the neighborhood that they, too, and not just new residents, are benefiting from the revitalization efforts taking place.

GOOD PRACTICE

In **Baltimore**, Operation Reach Out South West (OROSW), a coalition of neighborhood organizations created an Open Space Management Program to address the impact of vacant parcels on the quality of life and market perception of the Southwest Baltimore area. Targeting highly visible locations along gateway streets, the program turned 185 vacant lots into attractive, well-maintained green spaces. In addition to the neighborhood coalition, the effort engaged a local hospital, city agencies, a youth service corps, the Community Law Center, and the Baltimore Neighborhood Design Center.

D. Enforce design standards sensitively but seriously

Making design standards and other tools to ensure consistency with community design objectives meaningful depends on establishing a legally enforceable basis for the standards or guidelines, and establishing an effective review and approval procedure for the standards that are adopted.

The principle that reasonable and fairly enforced design standards are legally valid is widely held, although specific standards vary from state to state. While design regulation for historic preservation is common, the power of local government to enforce design standards through its land use regulations is not limited to historic properties or districts. Design standards often form a part of a redevelopment plan, and may also be built into the municipal zoning or land use ordinance. In redevelopment areas, design standards may also be spelled out in detail in development agreements between the municipality and its redevelopers. Similarly, if a developer receives any discretionary assistance from the city, such as public land, rezoning or tax abatement, it can impose design standards in return for that assistance.

Design standards must be enforced firmly, but sensitively. Successful enforcement requires melding clear legal authority with solid technical expertise as well as thoughtful judgment, permitting architects to work creatively and avoiding forcing them into mindless repetition of existing building patterns. While ultimate legal authority may reside with the planning commission or city council, a design advisory board should be established to review submissions and recommend actions to the body with the ultimate legal authority, including individuals with planning and architectural expertise, as well as residents of the neighborhoods where the effect of the design guidelines is likely to be most substantial. Both the advisory board and the ultimate decision-making body should have access to staff or consultants with solid design expertise.

Educating and engaging those involved is critical. Where design guidelines are neighborhood-specific, residents should be deeply involved in framing the guidelines, to reflect their sense of what neighborhood features are valuable and should be preserved and to build their support for future enforcement. The local officials that ultimately act on redevelopment proposals must also understand the importance of maintaining consistent enforcement of design and planning standards in order to further the rebuilding of the neighborhood as a sound, sustainable community. *By enforcing strong design standards from the beginning, the city is building value for the future. That value will ultimately translate into greater property values and market demand than if the community adopts a laissez-faire attitude toward developers' proposals.*

Principle 7: Address affordable housing needs to create opportunities and strengthen neighborhoods

There are compelling ethical, practical and political arguments for addressing the housing needs of the lower income households who will remain disproportionately concentrated in cities for the foreseeable future. Providing them with higher quality affordable housing not only benefits them, but their neighborhoods and the city as a whole, creating opportunities for lower income families to become more engaged residents of the community, and helping them build assets and move out of poverty. Rehabilitating substandard housing or building new, well-designed, affordable housing can improve the physical and aesthetic quality of a neighborhood, enhancing rather than compromising the neighborhood's appeal to more affluent homebuyers. In high poverty areas, construction of affordable housing, particularly for owner-occupants, can be the critical first step toward building economic diversity in the neighborhood. Conversely, the displacement of lower income households from appreciating neighborhoods, whatever its effect on those areas, can lead to worse housing conditions and greater overcrowding elsewhere, destabilizing previously viable parts of the community.

Every weak market city should have a strategy for addressing its lower income housing needs.[25] In this fundamental respect, there is no difference between weak or strong market cities. The difference lies in the particular strategies that are likely to be most effective, and most compatible with fostering the economic and social health of the community. Lower income housing strategies in weak market cities must reflect the particular realities of the housing market, and be designed to complement, and not conflict with, efforts to attract a more economically diverse population.

The particular conditions of weak market cities, with respect to both their economic situation and the characteristics of their housing stock, suggest four basic strategies to follow with respect to affordable housing.

STRATEGIES

A. Make the most of the community's existing housing stock.
B. Ensure that new construction of affordable housing serves neighborhood revitalization goals.
C. Integrate new lower income housing through mixed-income development.
D. Preserve affordable housing opportunities in areas experiencing market appreciation.

A. Make the most of the community's existing housing stock

While some older units may be unsuitable for continued use, many can continue to provide decent affordable housing with less capital investment than is required to replace them with new units. By anticipating potential decline, problems can often be addressed before existing houses and apartments deteriorate to the point where major rehabilitation is needed to keep them in productive use. Few local governments or CDCs, however, focus enough on preserving and improving the quality of the existing housing stock, as distinct from the simpler, more visible mission of building new housing. Communities should design and implement strategies to preserve and improve existing affordable housing, including a number of different steps:

- Create an information system capable of identifying properties at risk in timely fashion and targeting properties for action.
- Reach out to owners of at-risk rental properties to offer technical support and incentives for improvements while enforcing firm but reasonable housing quality standards.[26]
- Develop effective intervention tools to deal with problem absentee-owned properties, including nuisance abatement, receivership, and acquisition programs.
- Provide access to flexible, affordable financing for qualified individuals to buy, improve, and refinance existing multifamily buildings. Cities should actively encourage qualified, responsible small contractors, developers, and landlords to invest in the city's existing multifamily housing stock.
- Offer incentives, such as tax abatement or state income tax credits for preservation and restoration of affordable housing.
- Support CDC efforts to provide lower income housing through scattered-site and small-scale rehabilitation of existing units integrated with neighborhood revitalization strategies
- Help lower income homeowners to make improvements to their homes, and enable them to keep their homes until they are ready to sell them to other homeowners.
- Combat predatory lending through educational efforts and by offering lower income homeowners credible alternatives to the subprime market to meet their needs for home improvement loans.

GOOD PRACTICES

In **Cleveland, Ohio,** the Housing Court has linked assistance to landlords with code enforcement by employing a team of housing specialists that provide

[25] While lower income households are generally understood as all households earning between zero and 80% of the area median income (AMI) as determined by HUD for households of different size, the actual range of incomes that should be addressed by a community's housing strategy will vary depending on the particular conditions of the city, and the resources available to address housing needs. As noted earlier, resources to assist households earning 30% or less of AMI are in extremely short supply. Moreover, while in strong markets households at 80% - or more – of AMI may be suffering from severe housing deficiencies, such households may be relatively well housed in some weak market cities. As a result, the primary target population for most affordable housing efforts in weak market cities is likely to be the body of households earning between 30% and 60% of AMI.

[26] One of the most widespread complaints from inner city landlords about code enforcement practices is the extent to which inspectors often focus on minor matters, rather than concentrating on ensuring that the building's tenants have safe, healthy living conditions. Given the modest rents that lower income tenants can afford to pay, operating rental housing in lower income neighborhoods is a business with tight margins, which often do not allow for the level of improvement that would be considered appropriate for more expensive housing. It is far better to preserve affordable housing which, although sound, suffers from cosmetic deficiencies, than to allow that housing to be lost by imposing unrealistic burdens on the owner.

training through landlord-tenant clinics and one-on-one assistance to landlords seeking help finding financial resources to correct code violations and improve their properties.

A consortium of 90 banks, insurance companies and public sector entities created the Community Preservation Corporation (CPC) to offer both short-term and long-term acquisition, refinancing, and repair loans for small and medium-sized privately owned affordable rental properties. Through 2002, CPC had provided over $3 billion in financing for over 90,000 units in **New York** and **New Jersey**.

B. Ensure that new construction of affordable housing serves neighborhood revitalization goals

While many affordable housing needs can be addressed through the existing housing stock, there are other circumstances that make it appropriate to build new housing as part of an affordable housing strategy. Much of the housing built for factory workers in the late 19th century was not well constructed and is wearing out, while other housing may be too expensive or difficult to rehabilitate for modern use, or reconfigure for special needs. In addition to such practical considerations, a newly constructed and well-designed housing development may help improve the way the neighborhood is perceived, both by its own residents and by outsiders, and start the process of revitalization. Combined with the elimination of highly deteriorated or obsolete housing, it can improve lower income residents' circumstances while establishing a stronger market position for the neighborhood as a whole.

In contemplating new construction of affordable housing, local officials and CDCs must make sure that the proposed development will serve goals that cannot realistically be met by using the existing housing stock, beyond simply increasing the number of housing units in the community. If the purpose of a new housing development is to change the perception of a neighborhood, it is critical that the sites be chosen for maximum impact, and that the design of the new homes be of the highest quality. Construction of new but unattractive homes, built with cheap materials, may reinforce negative perceptions of the area rather than signaling positive change.

In addition to quality, quantity is an important consideration. Any new construction runs the risk of drawing people away from the community's existing housing, potentially increasing vacancy and abandonment. While in some cases, particularly in disinvested areas where the number of new units needed to create a critical mass may be large, it is important not to build more units than are needed to achieve the goal. Where the goal is to symbolize neighborhood change, the number of new units needed may be relatively small, particularly if they are built in a highly visible location. As discussed below, while affordable housing, particularly for owner-occupancy, can itself enhance a neighborhood, it is also desirable, where feasible, to incorporate new affordable housing into mixed income developments.

C. Integrate new lower income housing through mixed-income development

Integrating lower income housing with market-based housing helps build economically diverse neighborhoods, while maintaining a continuing base of affordable housing in the event of future market-driven appreciation in the area. It is now generally recognized that lower income units can be incorporated into mixed-income developments without impairing the marketability of the more expensive units. The percentage of lower income units must be carefully determined, the quality of design and planning must be high, and above all, the more affluent buyers or tenants must see the project as giving them good value for their money.

While the ultimate goal of mixed-income strategies is to expand the number of middle and upper income households in the neighborhood's mix, intermediate steps, particularly in high poverty areas, may be appropriate in order to move toward that goal. In a neighborhood where the typical household earns 30 percent of AMI, an affordable rental project, accommodating households earning 45 to 60 percent of AMI, can be a first step toward greater economic diversity.[27] An affordable homeownership development, bringing moderate income homeowners at 60 to 80 percent of AMI into the neighborhood, can be an even more significant step. Such developments must be planned and executed not as ends in themselves, but as steps toward the still greater economic diversity that is the ultimate goal.

In mixed-income developments, units targeted to middle and upper income households should be market-based. They should be sold or rented without reference to the income of the tenant or buyer, and structured in ways that will ensure that they work effectively to build the market.[28] This may require subsidy in many low value areas, where the highest rents or sales prices that units can command will not

[27] These income ranges are typical of projects developed with the Low Income Housing Tax Credit.

support the cost of creating the unit. Where it is not possible to develop the market-based units without subsidy, and where mixed-income development furthers the community's revitalization goals, the use of public or philanthropic capital resources for that purpose is not only legitimate but appropriate.

GOOD PRACTICE

The **New Jersey** Housing & Mortgage Finance Agency's MONI (Market-Oriented Neighborhood Improvement) program provides capital subsidy funds for mixed-income homeownership development in specifically designated target neighborhoods in the state's cities. Projects are eligible for up to $35,000 in capital subsidy for the market-rate units, if needed to bridge the market gap.

Local officials, CDCs, and lenders should be careful not to oversubsidize by underestimating the price at which high quality market-based units can be sold or rented. Contrary to conventional real estate wisdom, prices in the existing market do not necessarily dictate the price of new housing, particularly where the new housing is of a specific type or configuration that has not been previously offered in the community. Cities such as Cleveland have discovered that when they offer new products, such as loft apartments or large single-family houses, they can command prices that permit development without subsidy. A realistic but aggressive pricing strategy can not only reduce the amount of subsidy funds needed, but can augment the positive effect of the new development on the values of existing properties in the area.

D. Preserve affordable housing opportunities in areas experiencing market appreciation.

While preserving and providing affordable housing is a citywide issue, it takes on particular weight in appreciating or gentrifying areas, where increased rents and market values may erode the pool of affordable housing and displace long-term residents from their community. Rapid appreciation or gentrification can shrink the pool of affordable housing, exacerbating housing problems elsewhere in the community; impose physical or psychological hardships on long-term residents, many of whom may have contributed to the neighborhood's revival; and sharpen political and social conflict in the community by pitting more affluent newcomers against less affluent long-term residents, and in some cases, white newcomers against people of color.

The potential downsides to revitalization should not discourage cities from working to build market appreciation in their neighborhoods. Awareness of these issues and the potential impact of appreciation on lower income residents should prompt local officials and CDCs to address it early in the process, rather than wait until it is too late. By so doing, cities can allow appreciation to take place while minimizing the problems that it causes.

Timing is critical. Finding the proper balance between stimulating the housing market and preserving affordability can be difficult. Cities must be careful not to stifle appreciation that may just be emerging. Over-concentrating housing restricted to low-income households, for example, to the point where it represents a disproportionately large part of a neighborhood's total housing stock, can depress middle class in-migration, and effectively block appreciation. It may create or preserve low-income housing, but at a price to the community as a whole and to the residents of the housing who are locked into areas of concentrated poverty. Similarly, strategies that may be effective in a truly hot market, such as inclusionary or affordable housing replacement ordinances, may not be feasible in a market that is just beginning to show signs of vitality.

One of the best strategies to pursue in a gradually appreciating area may be for cities or CDCs to bank land for future construction of lower income or mixed-income housing, with the specific timetable and character of the housing driven by assessment of market trends. A large number of other strategies are also available. As an area begins to experience appreciation, a city may want to deploy some of the following strategies to ensure that affordable housing opportunities are preserved or created for present and future residents:

- Provide tax increment financing to create a pool of funds to preserve affordable housing in the neighborhood.
- Use public and philanthropic resources to finance acquisition of existing buildings by CDCs or community land trusts to be preserved for long-term affordability.
- Pursue shared-equity strategies to foster home ownership among lower income neighborhood residents, such as land trusts, limited-equity coops or condominiums, or mutual housing associations.
- Bank land for future construction of lower income or mixed-income housing.
- Offer financial incentives to property owners to preserve buildings as affordable housing.

[28] Recapture provisions may be appropriate where they can be built into the development without reducing potential market demand. This is often possible, particularly with respect to rental housing, where subsidies can be structured as a subordinated mortgage whose payments are triggered by project cash flow.

- Create vacant property receivership for buildings being held vacant for speculative purposes.
- Enact anti-speculation or anti-flipping ordinances.
- Establish programs to mitigate the impact of market appreciation on lower income homeowners, such as property tax ‘circuit breakers.’
- Adopt inclusionary ordinances, requiring a percentage of affordable units in all new or substantially rehabilitated buildings. In buildings below a minimum number of units, a contribution to an affordable housing trust fund can be made in lieu of providing the units.

Because of differences in state statutes, not all cities will be able to use all of the strategies listed above. In some cases, local officials, CDCs, and other community leaders may want to seek changes in state law in order to pursue these strategies, such as a vacant property receivership law or a property tax ‘circuit breaker’ to protect lower income homeowners from the effects of market value increases.

CHAPTER 4

CONCLUSION: GETTING STARTED

The preceding pages have outlined an extensive body of strategies for change. While the array may appear daunting to even the most committed public official or civic leader, faced with competing pressures and limited resources, it should not be seen as overwhelming. Many cities already have some parts of the strategy in place, perhaps even more than is widely known or appreciated, while there are many potential partners and allies, from neighborhood organizations to university faculty, who can be recruited to help put additional pieces together. Most important, perhaps, is that building a strategy for change is an incremental process, which is likely to stretch over many years. Pieces of the strategy can be put in place as resources permit or as emerging opportunities dictate. The main thing is to get started, making the most of the pieces that are already in place and building incrementally on them.

Weak market cities are financially strapped and most are short of technically trained personnel that can be assigned to new and complex tasks. CDCs are also often limited in their resources. As a result, for most cities it may make sense to set the stage for more ambitious efforts with initial modest and inexpensive steps, such as the following:

- **Inventory what is already in place.** Some cities may have many pieces already in place, as well as organizations eager to initiate efforts or contribute resources. Simply by putting down the information in one place so that everyone knows what else is going on beside their own piece can be a useful starting point. Putting the inventory together can be a good project for a team of interns or a college class.
- **Share ideas and information.** Few actors, whether local officials, CDC staff, local businesses, or foundations, have a complete picture of the potential participants in a strategy for change, their interests, their talents, and the resources that they can bring to the process. Creating venues and forums where people can share ideas and information, and begin to build a joint process, can add significant resources to the strategy.
- **Build a road map.** Once people have started to come together, and a good picture of the city's opportunities and ongoing activities is in place, it is important to build a road map or action plan for the strategy before going too much further, to ensure that both the existing activities and the future ones have the greatest impact.
- **Take small steps.** Table 6 on the following page illustrates a number of small, inexpensive actions that can be taken by local officials, CDCs and others to move forward with respect to many of the strategies outlined in this paper. Some of them cost no money and only a modest amount of people's time. Others may cost money, but only a small amount. All of them can begin to make a difference.

At some point, however, the question of allocating resources must be addressed. It is always difficult for financially stretched communities to reallocate any resources from meeting immediate needs to investing in the future, yet it is essential that they do so. Failure to do so inevitably perpetuates an unsatisfactory status quo. Investments do not have to displace current revenues. In some cases, they can be tied to growth, as was the case in Minneapolis, which financed its neighborhood revitalization strategy through tax increment financing, or financed with bonding, as in Philadelphia, which floated a $300 million bond to finance its Neighborhood Transformation Initiative. While these alternatives run the risk of leading to fewer revenues being available for current expenditures, if properly planned and executed, they should bring about future growth in tax revenues that should more than offset the costs.

TABLE 2: IDEAS FOR GETTING STARTED

Principle	Initial Action Steps
Think strategically	• Have the mayor or city manager organize a monthly meeting of the heads of the departments dealing with abandoned property issues to discuss what each one is doing, and how they can work better together. • Approach area universities to explore the possibility of a university-based research center or department developing a local information system. • Organize a roundtable on community-based planning for local CDCs and present/potential funders. Bring in speakers from other cities where it has been an effective tool.
Capture your market	• Hire a top-notch marketing firm to identify the city's target markets and how best to reach them. • Prepare marketing materials and organize meetings with human resource directors of major corporations and institutions in the region to enlist their involvement in promoting the city to new hires. • Hold home fairs in targeted areas, offering small incentives to the first 25 families to attend the tour and then buy in the area.
Set the table for investment	• Put comprehensive information online about (1) what permits are needed for any construction or rehabilitation project; (2) what information or documents an applicant needs to get the permit; and (3) who issues the permit and how they can be reached.
Tailor strategies to neighborhood market dynamics	• Get a university-based team to do a simple analysis of trends in house prices, mortgage activity (from HMDA), and tax delinquency by Census tract. • Create a fund to provide incentives to families willing to buy and rehab vacant buildings for owner-occupancy.
Build on community assets	• Enlist a local university to offer a pilot incentive program to staff to buy homes in the neighborhood adjacent to the university. • Bring the school district, a neighborhood CDC, and city recreation department together to develop plans for integrating housing and community open space into a planned school construction project.
Build quality into all physical investments	• Explore designating (additional) historic districts in order to take advantage of state historic rehabilitation tax credits. • Work with local architects to develop simple design guidelines for rehabilitation and infill development in the city's neighborhoods.
Address affordable housing needs to create opportunities and strengthen neighborhoods	• Recruit a group of retired landlords, property managers, or building superintendents to create a support system for landlords of troubled rental properties. • Freeze auctions of city-owned properties in a neighborhood showing house value appreciation and place properties in a land bank for future affordable housing development.

One of the most difficult issues, once one has accepted the principle of investing in the future, is where to put the money. Should funds be used to build a neighborhood information system, fund a major marketing campaign, bridge the market gap for a new housing development, or pay for a new light rail station in a struggling neighborhood? There is no simple answer. In making those decisions, local officials should look to the investments that generate the greatest leverage; not only in the direct sense of the ratio of private to public dollars, but which generate the greatest potential benefit or community impact. If a citywide neighborhood information system can be generated for a few hundred thousand dollars using a combination of existing resources and leveraging university or non-profit help, it might well be worth the investment. If it will cost a few million, it may be preferable to put the money into more tangible investments, unless a compelling case can be made that the information system will generate substantial concrete benefits down the road. Similarly, a small investment in the right place may trigger major change. If one or two million invested in market gap subsidies to families rehabilitating vacant buildings in an intermediate neighborhood sets off a chain reaction that leads to significant increased market demand in that area, the investment could be more than recouped within only a few years.

Getting started is not just about taking specific actions, but also about recognizing and acting on the need for far-reaching, transformative change. Transformative change involves new ways of thinking about the community, new ways of doing business, new skills, and new relationships with a new body of partners. It is not only difficult, but can be wrenching and painful. It happens only when and where leadership emerges to make it happen. While getting started will require a wide variety of skills, talents and resources, without effective leadership, the results are likely to be far less than the sum of the efforts. Leadership is the catalyst that makes transformation possible.

Leadership can emerge from many different places:

- In Minneapolis, the long-term commitment to change represented by the city's Neighborhood Revitalization Program, which emerged from the work of a combination of neighborhood organizations and public officials, has engaged thousands of community residents, CDCs, corporations, and the University of Minnesota in the process of transforming their city.
- In Michigan, Governor Jennifer Granholm's Cool Cities Initiative has led that state's cities to begin thinking creatively about their assets as well as their problems, and how they can build on those assets for the future.
- Mayors such as Baltimore's Martin O'Malley, whose commitment to gain control of the city's vacant and abandoned properties was translated into a coordinated strategy to take 5000 abandoned properties in two years, or William Johnson of Rochester, who forged a sustained working partnership between the city and its neighborhoods, have demonstrated a readiness and ability to tackle the problems of their cities.

The impetus for change often comes from non-governmental actors rather than a community's political leadership.

- In Cleveland, a coalition of community development corporations has provided the spark for a wide variety of revitalization activities.
- Individual CDCs, such as New Kensington CDC in Philadelphia or Patterson Park CDC in Baltimore have demonstrated the transformative power of leadership in their neighborhoods.
- Universities, such as the University of Pennsylvania or Hartford's Trinity College have partnered with residents, CDCs, and local government to rebuild the neighborhoods in which they are located.

Many CDC efforts, particularly in Baltimore and Cleveland, would not have been possible without the support of local foundations committed to community revitalization.

The leadership that cities most need arises from faith in the city's future, and a genuine conviction that the city's future can be a bright one. It builds bridges between the different sectors and interests in the community, making them partners in a creative enterprise. Ultimately, it leads to a sustained effort, where the commitment to change does not belong to a single individual, but is embodied in the entire community, its organizations, and institutions.

No report or document can provide leadership. It is the hope of the authors and sponsors of this paper, however, that it will help spur leadership among those who read it, first, by demonstrating that change is possible – and by offering a blueprint for change – and second, by offering a body of tools and resources that can make it happen.

ORGANIZATIONS

National Housing Institute

The National Housing Institute is an independent nonprofit research and education organization dedicated to community revitalization by empowering residents of low-income neighborhoods, strengthening the civil society and enhancing the work of community builders through public policy and programmatic analysis, development and promotion. Founded in 1975, we communicate our research through symposia, reports and in our national journal *Shelterforce*.

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Montclair, NJ 07042-3552
T. (973)509-2888
F. (973)509-8005
http://www.nhi.org/

Local Initiatives Support Corporation

The Local Initiatives Support Corporation (LISC) is the nation's leading community development support organization. Since 1980, it has provided grants, loans and business expertise to more than 2,400 community development corporations (CDCs) across the nation. By supporting and strengthening these non-profit, resident-led local organizations, LISC helps renew the communities where lower income people live, work, and raise families.

501 7th Avenue
New York, NY, 10018
T. (212) 455-9800
F. (212) 682-5929
http://www.lisc.org/

The Enterprise Foundation

The Enterprise Foundation helps America's low-income families with their struggle out of poverty by providing decent homes, access to steady employment, quality child care and safer streets. Working with a network of 2,500 community organizations nationwide and through its 17 offices, The Enterprise Foundation has leveraged close to $6 billion in investments and donations to help build almost 175,000 affordable homes.

10227 Wincopin Circle, Suite 500
Columbia, MD 21044
T. (410) 964-1230
F. (410) 964-1918
http://www.enterprisefoundation.org/

Community Development Partnerships' Network

The Community Development Partnerships' Network (CDPN) is a national organization that supports and promotes community partnerships working to build thriving neighborhoods. These public-private partnerships are a combination of business leaders, local governments and community members. CDPN's goal is to support these partnerships and to replicate their successes in other parts of the U.S. To that end, we facilitate peer learning, perform or support innovative research and provide access to information and technical support.

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