Creating Working Class Affordable Housing Opportunities in North Texas

A Report Prepared for

The North Texas Housing Coalition Summit

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THE J. MCDONALD WILLIAMS INSTITUTE

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The J. McDonald Williams Institute, established by the Foundation for Community Empowerment in 2005, harnesses the most rigorous analytical tools and methods available to clarify the complex issues faced by the residents of distressed communities. The Institute's holistic research strategy brings the interdisciplinary perspectives of six focal areas to bear on the most pressing problems facing our communities. These include Education, Crime and Safety, Health, Housing, Social Capital, and Economic Development.

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Defining Working-Class/ Affordable Housing

Although considerable debate surrounds the definition of working-class/affordable housing, the most common standard definition of affordability is that total household housing costs should not exceed 30% of the household's monthly net income. However, the 30% threshold for a two-income household earning $200,000 means the household could potentially afford a home costing more than $400,000, while a two-income household earning $41,600 (roughly $10 per hour for each worker) could potentially only afford a home costing approximately $101,000. This point is salient because upper middle class and high net worth families have the option to reduce the amount of money they spend on consumption or other leisure activities if housing costs rise above the 30% threshold, while moderate- and low-income families often do not have this option.

The average home price in the Dallas, Texas Metropolitan Statistical Area (MSA) in 2006 was $158,400.[1] As important as actual mortgage expenses, however, is the cost of homeowners' insurance, property taxes, and the interest rate on the mortgage loan. Frequently, those with high incomes and higher credit scores can obtain a mortgage at a much lower interest rate than those with moderate or low incomes and lower credit scores. For example, the monthly payment on a 30-year mortgage for a median price home in the Dallas MSA with an interest rate of 6.5% would be $1,001, while the monthly payment on the same loan with an interest rate of 7.5% would be $1,108. With the addition of property taxes and homeowners' insurance, the total monthly cost of owning a home in the Dallas Texas MSA could exceed $1,400 a month on a 30-year mortgage with an interest rate of 7.5%—making homeownership unaffordable for many North Texans.[2]

The U.S. Department of Housing and Urban Development (HUD), a federal institution established in 1965 to deal with the nation's low-income and affordable housing issues, sets the definition of housing affordability for most county and metropolitan areas in the United States by defining area median income (AMI) for each region. Likewise, most federal, state, and local housing assistance programs base their eligibility on HUD's AMI estimate. Typically, households earning between 80% and 120% of the AMI are considered *moderate-income*. Households earning 50% to 80% of the AMI are considered *low-income* households; less than 50%, *very low-income* households; and less than 30%, *extremely low-income* households.[3]

Unfortunately, many working families in Texas and North Texas have household incomes well below the moderate income category. A recent report by the Texas A&M Real Estate Center on Housing Affordability, using data from the 2004 Census Bureau's American Community Survey (ACS), estimated that half of all Texans have incomes below $40,000, and nearly 1.8 million households in Texas earn less than $20,000 annually.[4] The report also estimated that roughly

4.5 million households in Texas cannot afford to purchase a home priced more than $125,000. Yet, in 2006, the median price for a home in Texas was $142,300.

More and more families in North Texas, both working-class and low-income, are struggling with rising housing costs. While the AMI for the Dallas-Plano-Irving MD (Metropolitan Division) in 2006 was $66,700, roughly 50% of households in the Dallas-Plano-Irving MD had incomes below $50,000, and roughly 63% of households in the city of Dallas had incomes below $50,000. This equates to more than 251,618 households in the Dallas-Plano-Irving MD meeting HUD's classification of low income, and roughly 64,000 households in the city of Dallas meeting HUD's classification of low income.[5]

Table 1. Texas Housing Affordability Distribution: Households by Maximum-Priced Affordable Home

Highest Priced Home	Number of Households	Percent of Total
<$75,000	2,794,399	35.9
75,000-125,000	1,681,135	21.6
125,000-150,000	643,074	8.3
150,000-175,000	508,043	6.5
175,000-200,000	417,904	5.4
200,000-250,000	627,228	8.1
250,000-300,000	374,290	4.8
300,000-400,000	382,883	4.9
400,000-500,000	161,618	2.1
<$500,000	200,278	2.6
Totals	7,790,863	100.0

Sources: U.S. Census Bureau, 2004 American Community Survey and Real Estate Center at Texas A&M University

The percentage of renters living in the city of Dallas spending more than 30% of their household income on housing-related costs increased from 45% in 2002 to 50% in 2005, while the percentage of homeowners in the Dallas MSA spending more than 30% of their household income on housing-related costs increased from 33% in 2002 to 42% in 2005. This is significant, as foreclosures and bankruptcies in Texas and the Dallas MSA are also near an all-time high; Texas had the highest number of foreclosure filings (158,876) of any state in 2006.[6] The Dallas MSA was ranked in the top five metro areas with the highest number of foreclosure filings in the United States during the same year.

The need for decent and affordable housing is ubiquitous. For most American families, homeownership symbolizes the clearest path to building wealth. If moderate- and low-income families are deprived of the chance to attain homeownership, the greatest symbol of the American Dream, it is more than simply the chance to own a home that is lost—there is a difference between having a roof over one's head and owning your own home. The Williams

Institute's Wholeness Index and other studies demonstrate a very strong positive relationship between homeownership and the overall wellbeing of a community.[7]

Table 2. Selected Monthly Home Owner Costs as a Percentage of Household Income in the City of Dallas, 2002 – 2005

	Proportion of Households								
	2002		2003		2004		2005		Change
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	2002-2005
<20.0%	40,291	36.74	42,426	34.52	47,904	34.34	41,761	31.29	-14.82
20.0 to 24.9%	17,799	16.23	22,489	18.30	22,242	15.94	21,383	16.02	-1.27
25.0 to 29.9%	13,983	12.75	14,487	11.79	17,859	12.80	14,057	10.53	-17.39
30.0 to 34.9%	6,916	6.31	10,935	8.90	12,152	8.71	11,090	8.31	31.78
>=35.0%	28,850	26.31	31,660	25.76	38,524	27.61	44,444	33.30	26.60
<30%	72,073	66.83	79,402	65.09	88,005	63.46	77,201	58.16	-12.98
>30%	35,766	33.17	42,595	34.91	50,676	36.54	55,534	41.84	26.15

[1] A&M Real Estate Center (http://recenter.tamu.edu/data/hs/hs800b.htm)
[2] Williams Institute Analysis
[3] http://affordablehousingatl.org/glossary.html
[4] http://recenter.tamu.edu/tgrande/vol13-4/1796.html
[5] Williams Institute Analysis of the 2003 American Community Survey (www.census.gov)
[6] Realty Trac, 2007 (http://www.realtytrac.com).
[7] Harkness, J., & Newman, S. (2005). Housing affordability and children's well-being: Evidence from the National Survey of America's Families. *Housing Policy Debate, 16* (2), 223-255.

Housing and Wholeness

The *2006 Wholeness Index Summary Report* convincingly illustrates the need for adequate, affordable housing in the city of Dallas (see Figure 1).[1] While the city's overall score on the Wholeness Index was 65.49, two of the housing-related indicators had wholeness scores among the lowest. Of the 12 quality-of-life indicators, the availability of fit housing represents the third lowest score, at 55.12, while the availability of affordable housing is the lowest, at 50.02.

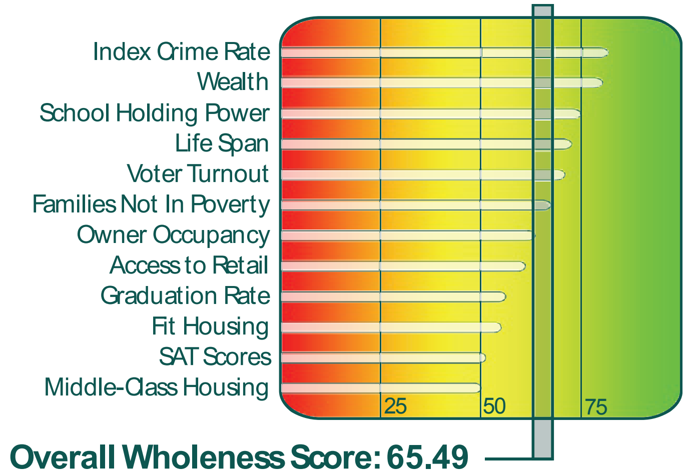

Figure 1. Overall 2006 Wholeness Scores, City of Dallas

Housing is an important component of quality of life and is a crucial driver of economic development. Attractive, affordable, and fit housing provides two economic advantages. First, it is a valuable resource in attracting new businesses to the area. Businesses wishing to relocate to Dallas must have suitable, close, quality housing for their employees. Equally important, having affordable housing available within the city limits will allow those who want to move to a more expensive home the opportunity to stay in the city, building vital bonds that root families to a place and provide a vested stake in ownership.

Key Housing Indicators: Place Matters

As the *2006 Wholeness Index Summary Report* has suggested, place matters. Even at the margin, Dallas has a fair amount of work to do to build new affordable housing to attract new residents and shelter those who choose to remain. But within the city, disparities in both quality and desirability provide startling obstacles to the city's ability to reach its full potential.

Affordable Housing in Dallas

Figure 2 displays the location of areas with high and low levels of affordable housing in the city of Dallas, representing the city's third lowest component of wholeness. An affordable home is defined as a single-family parcel whose value is in such a range that a family with an annual income of 50% to 120% of the Dallas area median income (AMI) would qualify for traditional financing. In Dallas in 2005, the median income was $66,603, setting the value range for affordable homes at $146,526 to $351,663. Citywide, 26.7% of Dallas's single-family residential parcels were valued in this range (see Table 3).

On the map, areas of light blues or white are closest to the city's average; in contrast, areas shaded by darker blues are those parts of the city in which the availability of affordable homes is most different from the city average. To aid in interpretation, the areas of greatest difference (darkest blue) have been outlined in green and red. Green areas are most different from the city average in a positive direction; that is, they have the highest proportion of homes valued in the affordable range. In Dallas, as Figure 2 demonstrates, that area is essentially the central portion of the city's northern sector, bounded roughly by Audelia and Inwood to the east and west, and running on either side of US Highway 75 North from Mockingbird to the city limits. In this area, there were 53,306 single-family residential parcels identified. Of those, 61.8% were valued in the affordable range.

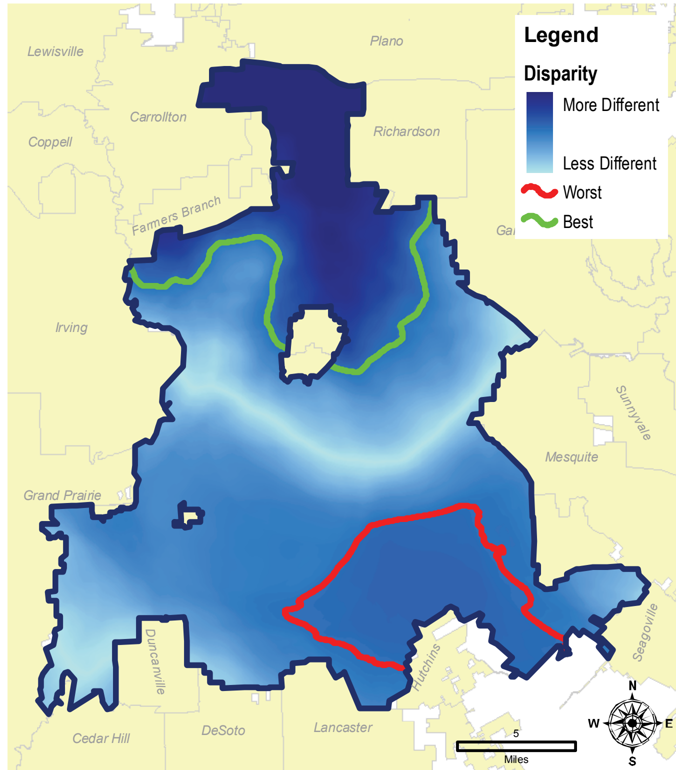

Figure 2. Wholeness Map for Affordable Housing, 2006

Table 3. Distribution of Fit and Affordable Single-Family Homes in Select Areas, 2005

	Total Homes	Percent Fit	Percent Affordable
Citywide	220,797	81.3	26.7
↓Area of Least Affordable Housing	17,067	75.8	0.23
↑Area of Most Affordable Housing	53,306	91.6	61.8
↓Area of Least Fit Housing	53,344	61.5	4.3
↑Area of Most Fit Housing	41,904	93.7	53.9
↓Overlap Between Least Fit and Least Affordable	6,201	66.2	0.03
↑Overlap Between Most Fit and Most Affordable	25,641	95.9	70.3

The area outlined in red, however, tells a starkly different story. It highlights areas in Dallas with the lowest proportion of affordable homes. As Figure 2 illustrates, this area is in the eastern half of the city's southern sector, running on either side of the Trinity River watershed north from the city limits past Loop 12, bounded on the east and west by Prairie Creek and Lancaster Road, respectively. In this area, 17,067 single-family residential parcels were identified. Of these, only 39 (0.23%) were identified in the affordable price range. While a portion of this area has been designated as a flood plain, additional land on which to build remains outside of the flood plain.

Fit Housing in Dallas

Figure 3 displays a similar wholeness map for fit housing. Fit homes are defined as those single-family homes rated by the Dallas Central Appraisal District as *average*, *good*, *very good*, or *excellent*. In 2005, 81.3% of the city's single-family homes were identified as fit structures. As with affordable housing, fit homes were not distributed evenly throughout the city.

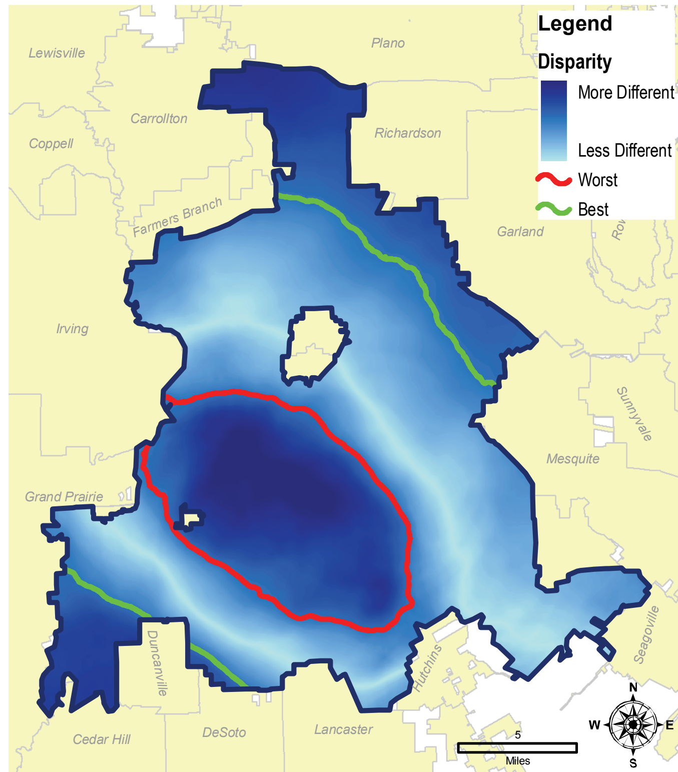

Figure 3. Wholeness Map for Fit Housing, 2006

The red and green rings in Figure 3 identify those areas that are substantially above and below this city average of 81.3%. Again, the map indicates a concentration of fit homes in neighborhoods within the city's northern sector. The area bounded in green is best identified as that portion of the city between the city's northern limits and Interstate 635 (in reality about 1 mile inside the loop). In this area, 93.7% of the 41,904 single-family homes were identified as fit homes.

The area outlined in red has the lowest proportion of fit homes. This area, generally bounded by the Trinity River and the Central Business District on the north and east and Loop 12 on the south and west, had 53,344 single-family residential parcels. Of those, only 61.5% were identified as fit parcels.

Fit and Affordable Housing in Areas of Overlap

Figure 4 presents the overlap between fit and affordable housing concentrations in Dallas in 2005. (See Table 3 for a breakdown of housing characteristics within the overlap areas.) Areas shaded darkest green on the map correspond to those in which levels of fit housing and affordable housing both rank among the highest. Areas shaded lighter green had one of the two indicators ranked among the best, while the other indicator was ranked close to the average. Areas shaded in orange had one of the two indicators ranked among the worst, with the other ranked average. Areas shaded red had both indicators ranked among the worst. A cursory inspection reveals that areas with high concentrations of affordable and fit housing, located in the city's northern sector, exhibit significantly more overlap than the areas of low concentration in the southern sector. In fact, of the 84.1 square miles in the northern sector that have affordable or fit housing concentrations among the best, 32 square miles (or 38.1% of the area) have scores among the best on both indicators. In the southern sector, however, 1.25 times as much area (a total of 106 square miles) has fit or affordable housing scores among the lowest. Of that area, only 12.3% (13 square miles) overlap. The housing characteristics within the areas of overlap show the best (in the northern sector) and worst (in the southern sector) circumstances within the city.

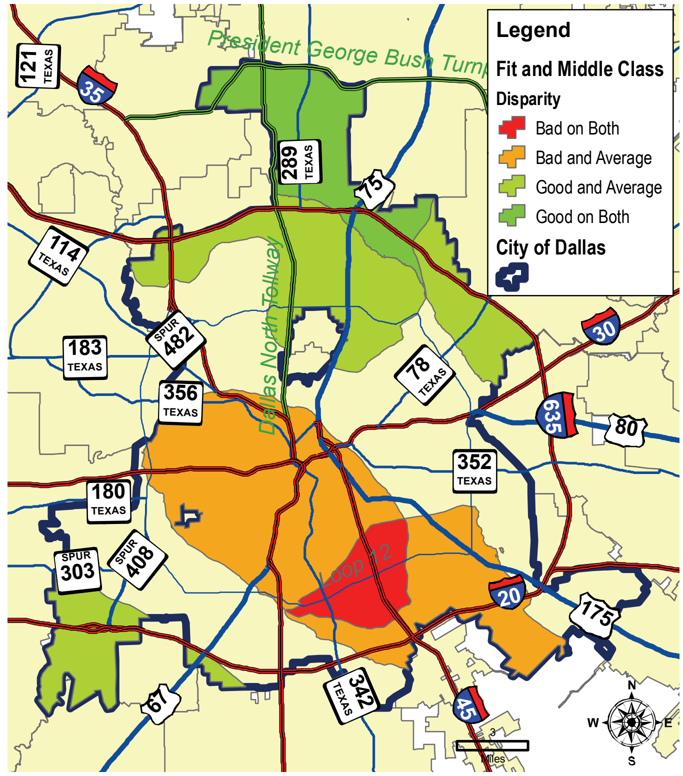

Figure 4. Overlay Map for Fit and Affordable Housing, Wholeness Index 2006

In the area of overlap to the north, including far North Dallas and areas immediately south of Richardson, 70.3% of the area's 25,641 single-family homes were valued in the affordable range. This compares with only 26.7% for the city as a whole. As for housing conditions, 91.6% of single-family units were identified as fit, compared with 81.3% for the city. In the smaller area of overlap to the south, 66.2% of single-family residences were rated fit, and only 0.03% (2 out of 6,201) were valued in the affordable range.

Figure 5 depicts the distribution of housing conditions and value in the aforementioned area of overlap. Darker dots represent the presence of a single-family residential parcel, while lighter dots represent the subset of those identified as fit. Stars mark the location of parcels valued in the affordable range. The map clearly depicts the deficit of affordable homes in the area.

The Real Costs of a Fit, Affordable Housing Deficit

The serious lack of fit and affordable housing in the city's southern sector carries real social and economic consequences. First, the southern sector is characterized by other quality-of-life measures that score among the lowest in the city. As the *2006 Wholeness Index Summary Report* indicates, the southern sector suffers depressed access to retail, higher levels of poverty, and concentrated areas of high crime that are 3 times the city's average. While residents of the southern sector suffer directly from such socioeconomic disadvantage, so too do all citizens of the Metroplex. As is the case with crime, significant disparities in housing quality and availability drive aggregate city numbers. These numbers are vitally important to the decisions made by residents and businesses, including decisions to relocate within the city or move from it. The effects of such economic decisions also impact other quality-of-life indicators, such as access to retail, performance of public education, and the like.

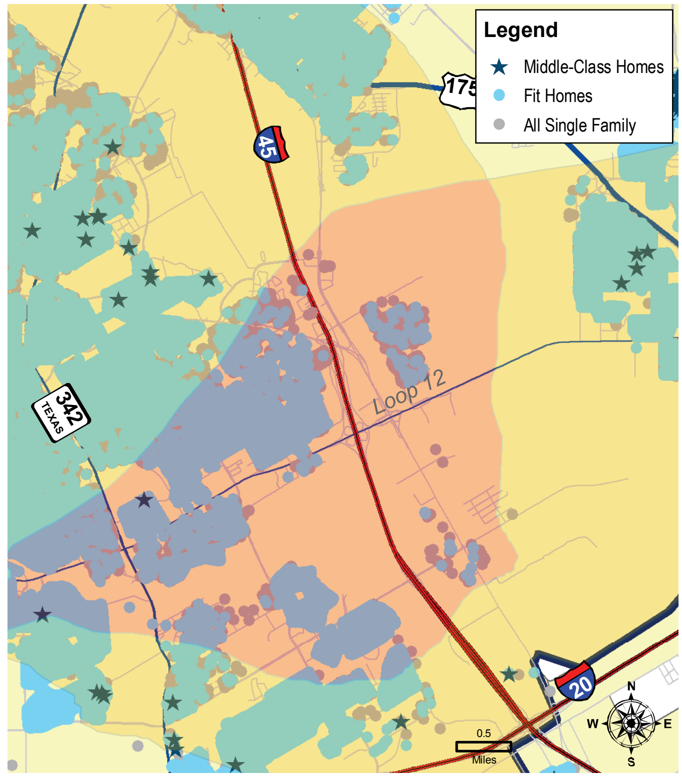

Figure 5. Housing Condition and Value in Select Areas, Wholeness Index 2006

Beyond the long-term impact on the economic and housing decisions of new and current businesses and residents, the lack of fit, affordable housing carries significant economic impact. Consider the case of the areas identified as among the worst on either or both housing indicators (the areas shaded in orange and red in Figure 4). These areas contain 64,153 single-family residential parcels. Of those, 64.9% were identified as fit, compared with a citywide proportion of 81.3% fit housing units. To increase the level of fit housing in this area to the citywide level, 10,547 single-family homes would need to be improved from an unfit to a fit rating. In this "area of concern," fit homes were valued at $15.80 per square foot more than unfit homes. Based on an average unfit home size of 1,078 square feet, moving these parcels from unfit to fit status would increase the assessed values in the area by almost $180 million.

A similar economic benefit might be realized by increasing the availability of affordable housing. Citywide, 26.7% of single-family homes were priced in the affordable range. In the area of concern, however, only 3.7% were valued in that range. While rehabilitating existing unfit units will increase their value, rehab alone cannot close the gap. In analyzing the values of unfit homes in the area of concern, it is found that the addition of $15.80 per square foot to the 22,290 unfit homes not in the affordable price range will elevate only 202 homes (less than 1%) into the affordable range. Clearly, the affordable housing solution must include new construction. Using new construction to raise affordable housing availability to the citywide average of 26.7% will thus require an additional 20,159 homes to be built in the affordable price range. If each of these homes is built at the floor of the affordable scale, aggregate assessed values in the area will increase by almost $3 billion.

[1] The J. McDonald Williams Institute. (2006). *2006 Wholeness Index Summary Report.* Dallas, TX: The J. McDonald Williams Institute.

Affordable Housing

Not only does housing offer a family a physical place to stay, housing has been shown to impact other areas of individual and community life such as one's health, neighborhood crime, childhood wellbeing, and educational attainment. For example, some research has suggested that homeownership may mitigate the negative impact of growing up in a poor, distressed neighborhood.[1]

Affordable Housing and Health

The availability of fit, affordable housing is directly linked to the health and wellbeing of communities and families. According to the World Health Organization (WHO), fit housing helps to protect against communicable and chronic diseases, injuries, poisonings, and psychological and social stresses. On the other hand, factors associated with an increased risk of some diseases include overcrowding, lack of proper sanitation, and pollution.[2]

Affordable Housing and Childhood Wellbeing

Affordable housing is especially important when it comes to our nation's children. The presence or absence of affordable housing can affect a child's attendance and achievement in school, access to primary medical care and preventive health services, and risk of many diseases and injuries. The link between childhood wellbeing and affordability of housing is similar to the link between childhood wellbeing and poverty; two theories exist to explain these relationships. The first suggests that poverty and/or unaffordable housing impact children by causing material hardship in their families. On a limited income or one that is mostly consumed by the cost of housing, families cannot purchase the goods and services that would promote their children's development. The second theory suggests that economic hardship causes parental stress and depression, which can lead to poorer parenting and nurturing.[3]

But while poverty and affordable housing may affect children through similar mechanisms, their effects on children can be separated. Researchers have shown that impoverished families living in public housing with fixed housing costs are better able to afford medical and dental care and adequate nutrition for their children than other impoverished families.[4,5] Furthermore, as the availability of affordable housing within a community decreases, poor families are more likely to live in crowded housing, parents with young children (between the ages of 6 and 11) tend to have worse mental health, and families with young children are more likely to put off seeking medical or dental care. Similarly, poor young children in communities with little affordable housing tend to have poorer health and are more likely to be held back in school than poor young children in communities with more affordable housing. For poor older children (between the ages of 12 and 17), the effects of unaffordable housing on health, grade retention, and behavior problems are even more pronounced than in young children. This may suggest that the effects of a lack of affordable housing are cumulative and become worse over time.[6]

Affordable Housing and Crime

There is a myth among many upper- and middle-class communities that the introduction of "affordable housing" will ruin their neighborhoods. Common beliefs include the idea that nearby affordable housing lowers the values of their homes and increases crime rates. However, there is no evidence to suggest that these beliefs are true. Although it is true that pockets of concentrated poverty do tend to be associated with high crime rates, studies have suggested that having mixed housing—that is, neighborhoods with a combination of high-income and affordable housing—actually leads to lower crime rates.[7] This makes sense, as there is generally greater access to and higher quality public services, goods and services, and employment opportunities in higher income communities—all factors associated with lower crime rates.

Affordable Housing and Education

A recent study demonstrated that a child who has always lived in a home owned by his parents attained roughly one half of a year of school more than a child whose parents did not own a home.[8] In addition, a child whose parents owned a home was 10% more likely to graduate from high school and attend college. Hence, homeownership can impact educational achievement, affect college attendance, and reduce the amount of social support families may need from government and other entities. Finally, the study demonstrated that a 10% increase in neighborhood homeownership rates reduce a homeowner's daughter's chance of a teen pregnancy by 2.5%.[9]

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[1] Aaronson, D. (2000). A note on the benefits of homeownership. *Journal of Urban Economics*. 47, 356–369.

[2] Spielman, S. E., Northridge, M. E., Sclar, E. D., et al. (2006, Winter). Interdisciplinary planning for healthier communities: Findings from the Harlem Children's Zone Asthma Initiative. *Journal of the American Planning Association.*

[3] Harkness, J., & Newman, S. (2005). Housing affordability and children's well-being: Evidence from the National Survey of America's Families. *Housing Policy Debate, 16*(2), 223–255.

[4] Lee, W., Beecroft, E., Khadduri, J., & Patterson, R. (2003). *Impacts of welfare reform on housing assistance recipients: Evidence from Indiana and Delaware*. Washington, DC: US Department of Housing and Urban Development, Office of Policy Development and Research.

[5] Meyers, A., Frank, D., Roos, N., Peterson, K., Casey, V., Cupples, A., & Levenson, S. (1995). Housing subsidies and pediatric undernutrition. *Archives of Pediatric and Adolescent Medicine, 149*, 1079–1084.

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[8] Harkness, J., with S. Newman (2002). Homeownership for the poor in distressed neighborhoods: Does this make sense? *Housing Policy Debate, 13*(3), 597–630. Retrieved January 30, 2007, from w.fanniemaefoundation.org/programs/hpd/pdf/hpd_1303_harkness.pdf

[9] Ibid.

Understanding Middle-Class/Affordable Housing Market Opportunities in North Texas

National Issues

The "housing market" is a complicated concept. Interpretation and utilization of the concept varies, especially by the geographic level of analysis. At the national level, the housing market is generally seen as one barometer for the health of the economy. Modest increases in median home price are a positive sign, indicating enough confidence on the part of buyers and sellers that they are willing to suffer the transaction costs associated with entering the housing market. More than modest increases or decreases in housing prices generally trigger concern because housing is one of the largest budget items for American households. The 2005 Consumer Expenditure Survey (CES) found that the average budget share for housing expenditures was 32.7%, by far the largest category in American budgets. Of the housing budget, about 60% is spent on direct "shelter" costs (mortgage or rent, property taxes, maintenance, etc.), with the remaining 40% dedicated toward utilities, furnishings, and related items. Thus, any significant movement in the housing market is felt by consumers.

Charged with price stabilization, the Federal Reserve pays particular attention to indicators of the housing market because that is one sector of the economy that is sensitive to its interest rate policies. The number of building permits for new private housing, for example, is part of the Index of Leading Indicators produced by the Conference Board, for good reason—there are jobs associated with the construction, marketing, and financing of new homes.

Likewise, residential construction is an important component of Gross Domestic Product (GDP). At the beginning of 2006, the percentage of GDP accounted for by residential construction was, essentially, at a 50-year high, approximately 6.3%. Not surprisingly, this healthy residential construction follows a steady downward trend in 30-year mortgage interest rates (see Figure 6). However, interest rates are not the only driver. Demographic shifts, including migration to the Sunbelt cities, have favored new construction, as has deregulation of the financial services industry.

In 2006, homeownership in the United States stood at its highest rate—69%. As with residential construction, this milestone reflects a long period of declining interest rates and deregulation in financial services. Today (early 2007) there is mounting concern that ownership rates were achieved by increasing the risk of default. Monthly foreclosure rates generally increased throughout 2006 as interest rates edged up and home prices stopped increasing. These foreclosures indicate a type of "market correction," in that the default risk for mortgages is higher than in previous years. The default risk rises as the loan-to-value ratio of mortgages

Figure 6. GDP and Mortgage Interest Rates, 1965-2010

increases. In recent years, liberal lending practices and expectations of increasing value have supported higher loan-to-value ratios; hence, the high foreclosure rates are simply an indicator of the higher risk.

These national issues cannot be ignored in the affordable housing debate in North Texas. Almost any policy can be temporarily stymied by rising interest rates or facilitated by falling rates. The competitiveness in the financial services industry implies that the array of options is now rather sizeable, and unschooled and/or first-time borrowers may be particularly susceptible to higher risk products. On the other hand, the array of financial products can be quite advantageous when utilized correctly.

Regional Issues

At the regional level, the housing market is also a reflection of the health of the economy, but the interplay between housing, population changes, and wages complicates interpretations. A regional economy is more "open" to migration of capital, firms, and labor than the national economy. People, investment dollars, and firms routinely move from area to area within the

United States, and such moves do not necessarily produce a considerable impact on the national economy. However, they do signify how a region is performing vis-à-vis other regions. After all, firms or individuals would not relocate if they did not perceive that the benefits exceeded the costs when compared with other potential locations.

The regional housing market is interconnected with the regional labor market. If real wages start to rise, people will move into the region and put pressure on housing prices. Some areas are more capable of assimilating population increases without too much pressure on housing. Older "land locked" cities, for example, often have no place to expand. Moreover, they can be layered with regulatory structures that make changing the supply of housing in response to growth challenging. This does not necessarily mean that such cities will not continue to grow. Rather, there may be good reasons for the region to be highly productive and/or desirable and continue to grow with increasing wages and housing values. San Francisco and New York, for example, have higher values of both wages and housing prices than the Dallas–Fort Worth area, despite the fact that there is little room for expansion in those cities.

The North Texas economy appears to have some competitive advantages in this regard, however. First, it is one of the least dense large Metropolitan Statistical Areas (MSAs) in the country—similar to Atlanta and Houston, but less than one tenth the density of New York. Additionally, Texas in general, and North Texas in particular, are generally considered "business friendly," meaning that, comparatively, the regulatory environment is favorable. What this means is that *if* we can get real increases in wages, we should be able to grow without enormous pressures on housing values.

The fundamental concern, of course, is how to achieve increases in real wages. Urban economists differ about many of the factors that matter and their relative importance, but generally agree that an educated workforce is one of the most important drivers of real urban growth. A young and educated population seems to regularly correlate positively with economic growth. Either by growing this educated population internally by keeping younger people from emigrating and getting them to attend college locally, or by attracting educated and younger people from elsewhere, the urban places that experience success in this dimension appear to also be more successful in terms of economic growth. Moreover, there is some evidence that educated workers attract more educated workers, so the importance of this factor is multiplied over time.[1] Unfortunately, the North Texas economy is lagging behind competitors like Atlanta in growing an educated work force.[2] Thus, the true opportunity for the North Texas economy is to succeed in enhancing the educational attainment of the workforce and drive real increases in wages, while simultaneously offering an array of desirable housing options to the population.

Some of the basic trends illustrate this opportunity. From 1990 through 2005, the population of the Dallas–Fort Worth–Arlington Metropolitan Statistical Area (MSA) grew almost 46%. Among all 360 MSAs, the Miami–Fort Lauderdale–Miami Beach MSA grew the most (approximately 156%), while the Weirton–Steubenville West Virginia–Ohio MSA grew the least (less than negative 11%). The Dallas–Fort Worth–Arlington growth rate was among the top 50

(32nd). Although this may seem unremarkable, of the 10 largest MSAs in the United States, only the Atlanta–Sandy Springs–Marietta MSA, with a growth rate of approximately 60%, grew more in terms of population than the Dallas–Fort Worth–Arlington MSA.

Recent population estimates suggest that for the Dallas–Fort Worth–Arlington MSA, the contribution to population growth from international migration is substantial. From 2000 through 2005, the Dallas–Plano–Irving Metropolitan Division area grew by 441,897 people, or 12.8%. Approximately 5% of this growth was from international migration. The Fort Worth–Arlington Metropolitan Division grew by 9.7% (216,034 people), with 2.9% accounted for by international migration. While the Fort Worth–Arlington figure is substantially less than Dallas–Plano–Irving, it is still among the top 60 for urban areas in the country. In contrast, the Dallas–Plano–Irving Metropolitan Division ranks 8th nationally for contributions from international migration.[3]

Housing costs have increased, but not at remarkable rates. From 1990 through 2005, Dallas–Fort Worth–Arlington's median house price index increased approximately 60%, while Atlanta's increased more than 85%. Over this period, per capita income increased over 200% in Dallas–Fort Worth–Arlington, but still less than that of competitors like Atlanta, suggesting an increase in living standards for area residents.[4] The North Texas regional economy is in an enviable spot. It is one of the fastest growing regions in the country, with substantial international migration. It has room to increase density and, thus, can in all probability absorb the population increases without too much pressure on prices. In this sense, North Texas is exceptionally competitive with other regional economies. On the other hand, we need to be concerned about educating an immigrant population, raising the educational attainment of existing residents, and attracting educated workers to the region. This is the regional context that affordable housing issues must confront.

Implications: Affordable and Working Class Housing

The North Texas economy appears to face a shortage of affordable housing. This results from a mismatch between the buying power of residents and the costs of housing. The 2005 American Community Survey (ACS) found that the percentage of occupied homes that are owner-occupied was 61% in the Dallas–Plano–Irving area and 65.3% in the Fort Worth–Arlington area. Both are less than the national average, which was 69% in 2005, according to the *Current Population Survey/Housing Vacancy Survey* regularly conducted by the U.S. Census Bureau. The Atlanta MSA had 67.5% owner-occupied homes, while the Phoenix area had more than 68%. The low rate in North Texas, coupled with the regional income and housing trends noted above, suggest that there is substantial opportunity to increase homeownership.

The affordable housing problem is part of a larger set of regional issues (including, for example, transportation and air quality) that, if left unattended, will eventually cause the region to fall short in achieving its optimal competitive position. There are at least three reasons for this.

First, homeownership, especially in low-income areas, is necessary to create and preserve viable neighborhoods. The social science literature is replete with studies that link poor neighborhood conditions to a host of social problems including crime, poor health, and low educational achievement, among others. If the region expects to experience real economic growth (i.e., more people making higher real wages), it must succeed in reducing perceptions of high crime, improving health outcomes, and raising the overall level of education.

Second, homeownership is a way to accumulate wealth and rise above mere subsistence living. While many Americans now hold financial assets, home equity is still one of the largest categories of wealth. The latest (2000) U.S. Census Wealth and Asset Ownership report indicates that the median net worth of Americans was $46,506 in 2000 (mean $164,635). For African Americans and Hispanics, this figure was just over $6,000 (mean $35,284 for African Americans and $51,908 for Hispanics). The median equity for home owners was $59,000 (mean $87,603); thus, home equity is clearly one of the fundamental components of net worth. The striking differences between non-Hispanic Whites and African Americans and Hispanics is, at least, partially explained by the differences in homeownership rates—non-Hispanic Whites with 74.3%, African Americans with 48%, and Hispanics with 47.6%.[5] Wealth creation is one way to get out of poverty, and thus, homeownership is part of a larger program to reduce concentrations of poverty.

The third reason for considering affordable housing as part of a regional growth strategy is to ensure the utilization of available economic resources. As discussed below, there are geographic areas within the city of Dallas, and probably within other cities in the region, that could profitably be developed as part of an effective affordable housing strategy. That these areas exist means that there are likely some existing barriers to development; hence, the opportunity for affordable housing policy to harness these resources hinges on effectively addressing these barriers.

Some regional strategies are more difficult than others. Transportation requires a great deal of collaboration between cities and the federal government. Education policy requires coordination between independent school districts, the legislature, and the Texas Education Agency. Similarly, affordable housing requires collaboration between nonprofits, local housing departments from various communities, and private developers. There are reasons for believing in success at increasing the availability of affordable housing, however, because the forces in the housing market will tend to reward successful projects. In other words, given the trends and current conditions in North Texas, there is reason to believe that there are "arbitrage" opportunities in affordable housing—the expected demand exceeds supply trends, and those who determine a way to capitalize on this mismatch will be financially rewarded.

The Spatial Overview

Figure 7 shows the spatial distribution of household income in the simplest possible fashion. Census block groups with median household incomes that are above the Area Median Income (AMI) value of $65,500 in 2005 are illustrated using one color, and the block groups below that value are assigned another color. The pattern is somewhat predictable—rural areas and the wide swath through south Dallas County and continuing along I-30 toward Fort Worth are easily identified as lower income. However, there are very few sub-regions that do not have some pockets of citizens that fall below the AMI for the region. The potential for mismatch between the supply and demand of lower-cost housing exists in just about every community in North Texas.

Figure 8 provides a little more resolution to the spatial distribution of income. The darkest areas denote block groups with median household incomes below 80% of the AMI, or $52,400, while the lightest color depicts block groups with median incomes above 120% of the AMI, or $78,600. Now, it is even more evident that there are significant areas of potential gain from sound affordable housing policy. Families whose household income falls in the middle range (80%-120%) of AMI are often unable to find quality housing options.

Not every municipality will be able to approach affordable housing in the same fashion. Some are truly "land locked," while others have ample vacant tracts. Table 4 presents the number and percentage of vacant single-family residential tracts for cities in Dallas County. Cities such as Richardson, Farmers Branch, and University Park have little raw land to work with; consequently, their approach will need to focus on redevelopment of existing areas.

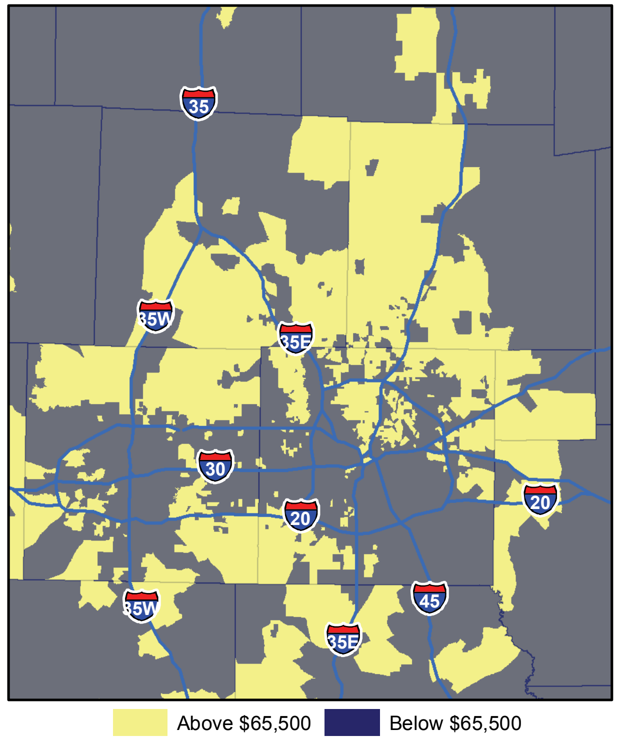

Figure 7. Spatial Distribution of Household Income, Above and Below AMI

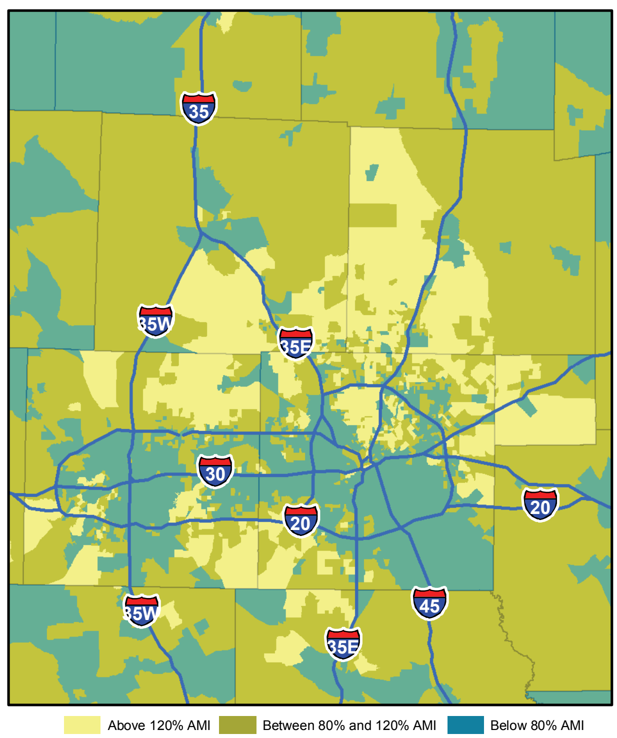

Figure 8. Spatial Distribution of Household Income, Below and Above Select Percentages of AMI

Southern rim cities such as Cedar Hill and Desoto have more vacant tracts. Surprisingly, Dallas and Grand Prairie have a significant number of vacant tracts (almost 30,000). Moreover, approximately 19,000 of the Dallas tracts fall within the southern sector of the city. This area, along with Grand Prairie, is exactly the swath of low-income households identified in Figure 7 and Figure 8.

The availability of vacant tracts land in the southern sector of Dallas, along with the economic forces generated by the potential of the inland port and the creation of University of North Texas (UNT) at Dallas, suggest that there may be a unique opportunity to address myriad issues, including affordable housing. Other issues include increasing the tax base for the city of Dallas, perceptions of crime and blight in the southern sector of the city, air quality problems that are exacerbated by a spatial mismatch between jobs and the location of workers, and transportation.

Table 4. Vacant Single-Family Parcels in Dallas Central Appraisal District's Service Area

AREA	SFR - VACANT	Percent
DCAD 2006 Parcels	50,311	8.5
Addison	43	3.0
Balch Springs	1,020	15.9
Carrollton	751	2.6
Cedar Hill	2,514	16.3
Cockrell Hill	69	7.9
Combine	67	60.9
Coppell	364	3.4
Dallas	21,848	8.9
Desoto	1,446	9.9
Duncanville	660	5.8
Farmers Branch	84	1.1
Garland	1,713	3.0
Glenn Heights	960	27.0
Grand Prairie	8,048	18.4
Highland Park	62	2.1
Hutchins	262	26.1
Irving	2,392	6.9
Lancaster	2,445	20.9
Lewisville	113	95.8
Mesquite (Dallas County)	1,154	3.1
No Town	1,019	44.5
Ovilla	35	21.6
Richardson	306	1.6
Rowlett	915	4.9
Sachse	273	5.9
Seagoville	1,011	25.3
Sunnyvale	311	16.9
University Park	107	1.9
Wilmer	304	30.9
Wylie	15	100.0

[1] Glaeser, E. L., & Berry, C. R. (2005). *The divergence of human capital levels across cities*. Cambridge, MA: Harvard Institute of Economic Research.

[2] See Murdoch (2006) for more detailed comparisons.

[3] U.S. Census. (n.d.). Population estimates. Retrieved January 30, 2007, from http://www.census.gov/popest/estimates.php

[4] Of course, the average income measure masks who got the increases in income.

[5] See http://www.whitehouse.gov/infocus/homeownership/homeownership-policy-book-background.html

Affordable Housing - Programs That Work

Homeownership is the American Dream, but clearly for many Americans this dream is never fully realized. The decline of subsidized housing units and the unavailability of fit and affordable apartments and homes in inner cities across the United States have prevented many families from living in urban areas, close to their places of work; ultimately, this phenomenon has displaced low- to moderate-income homeowners and renters or relegated them to residences that are deemed unfit. The stock of affordable, quality housing in many urban areas is abysmally low. However, recently a number of new housing initiatives have attempted to undo the damage caused by dwindling resources and a lack of support for quality, affordable housing by developing innovative strategies to increase homeownership and the presence of affordable, quality rental properties in urban centers. As a result, many urban neighborhoods have undertaken revitalization efforts or instituted incentives to encourage the development of new affordable housing options. And although the revitalization of dilapidated and unfit housing provides the opportunity to create affordable housing options for low- to moderate-income families, without regulation, urban revitalization can also effectively gentrify neighborhoods and uproot residents who can no longer afford to live in the neighborhoods they once called home. Balancing competing interests and the needs of current and prospective residents proves challenging, yet many cities across the nation have achieved marked success at improving affordable housing options for families with incomes significantly lower than the area median income (AMI).

Types of Programs That Work

According to the Urban Land Institute, organizational best practices in the provision of affordable housing can be divided into three general categories: predevelopment, financing, and sustainability and growth.[1] Predevelopment includes marketing practices that educate community members and encourage community support of affordable housing initiatives, functioning to neutralize Not in My Backyard (NIMBY) sentiments. NIMBYism, or the reluctance of community members to support housing practices and policies for low- to moderate-income families within their neighborhoods, profoundly affects the degree to which affordable housing development can proceed. As such, activism and community education that fosters a partnership approach among community members and the public and private sectors has the greatest potential to see the development of affordable housing to fruition.

Likewise, an essential component of the predevelopment process includes addressing barriers to affordable housing development, such as zoning and land acquisition, as well as the political environment in which initiatives will be implemented.[2] In addition, the creation of mixed-income housing, especially development that fits within the confines of the currently existing community design, is a predevelopment goal that is more attractive to developers, politicians, and neighborhood residents than low-income housing development. Project feasibility also depends to a greater degree on the area market and on developers and organizations realizing the opportunities inherent within a community and the resources available to undertake the creation of affordable housing. Some more recent planning efforts employ a fair share approach, where communities are routinely inventoried to ensure that they are meeting the affordable housing needs of current and future residents. Benchmarks of 10% affordable units generally apply to fair share development strategies.

Without financing, affordable housing development becomes impractical and largely unfeasible. However, the financing of affordable housing is inextricably linked to the political climate and the degree to which public support, private capital, and government funding come together synergistically. Thus, creative use of financing options and utilization of multiple funding sources not only provide the initial capital to undertake affordable housing development, but also contribute to the sustainability of affordable housing efforts and the creation of a long-term plan to maintain capital;[3] this is especially true for nonprofit developers who own and manage affordable housing properties. Clearly, minimizing the cost of development is an overarching theme in affordable housing development; publicly owned lands, soft debt, and increasing the density of developments all constitute viable ways to reduce the financial burden of affordable housing production.

After initial financing, the sustainability and growth of affordable housing opportunities is perhaps the most challenging aspect of affordable housing. This entails not only ongoing funding sources, but also continued encouragement of smart development strategies that address the changing needs and character of community. Likewise, maintaining fruitful relationships with developers, residents, government agencies, and partner groups, while advocating for policies that preserve reasonably priced housing units, ensures the continued presence of affordable housing options for families.[4]

Incentives and Bonuses

Instead of instituting penalties or preventing development in situations where developers are unwilling to commit to affordable housing development, incentives and bonus structures designed to encourage the production of affordable housing are a much more effective strategy. Density bonuses represent one way governments can loosen restrictions to accommodate affordable housing projects, allowing developers to build additional units and offset the cost of developing low-cost housing by adding other housing at market rates.[5]

Inclusionary Zoning

Inclusionary zoning that compels developers to produce a set amount of affordable units within new developments or through renovation projects satisfies the mixed-income characteristic that defines successful affordable housing initiatives.[6] Moreover, true inclusionary zoning policy "goes beyond voluntary incentives and requires that a small percentage of units (typically 10 percent) in every market rate housing development be kept affordable to moderate-income families."[7] Through special permits and zoning restrictions, local governments ensure not only the production of affordable housing, but also the sustainability.

Tax Increment Financing (TIF)

Tax Increment Financing (TIF) is an economic development tool that allows planners to anticipate the potential property tax revenue of development in an area and use these funds to support development and revitalization efforts.[8,9] TIF can be employed using two primary methods: 1) TIF bonds and notes or 2) "pay as you go" approaches. The former method provides funds for upfront development costs, which are substantial for many large redevelopment projects, whereas the latter is more suitable for smaller projects for which costs are spread across the development project.

Housing Trust Funds

Housing trusts have varied funding sources, including real estate transfer taxes, late payment penalties on real estate, and other real estate fees.[10] Moreover, housing trusts can be targeted at developers, community development organizations, nonprofits, and individual low- to moderate-income first-time homebuyers. Regardless of the source of funds, housing trusts aimed at developers and nonprofits offer low-interest (below-market rate or 0%) loans or gap financing for affordable housing development. Land trusts offer another safeguard that ensures the sustainability of affordable housing through buyback programs. Housing trusts aimed at first-time homebuyers are similar to first-time homebuyer programs (described below) where monies are earmarked to minimize the risks and costs associated with a home purchase by first-time homebuyers.

Tax Credits

For many builders and developers, the capital required to construct multifamily dwellings cannot be recouped if the development is designated as affordable. In fact, if developers plan to rent multifamily units to low- and moderate-income families, the costs of construction, repairs, and general maintenance reduce the profit margin so significantly that for-profit developers would be unwilling to take the risk. Low Income Housing Tax Credits (LIHTCs) function to reduce tax liability and make the development of affordable housing possible. In exchange for a guarantee of affordable housing for a set period of time (10, 20, or 30 years), developers can use the additional capital to finance development. Similar employer-assisted programs exist as well; however, in this case, employees benefit from the established fund when they borrow to make a home purchase.

Housing Cooperatives

Housing cooperatives have a long history in the United States, dating back to the late 19th century in New York, where cooperative housing was a desirable alternative to the inconveniences many of the wealthy associated with traditional homeownership.[11] Low-income cooperatives, however, have a much less charming past and are frequently associated with the federal housing ventures of the 1960s and 1970s. More recent housing cooperatives allow residents to build equity, self-manage, and enjoy the amenities of a community atmosphere, through purchasing and loan assistance programs such as housing trusts and federal block grants like HOME. Although limited equity cooperatives require homeowners to purchase equity shares up front and abide by the rules set by the other cooperative members, "low-income households that are willing to live within LEC guidelines and contribute their time to management activities can obtain affordable housing with low external costs."[12]

First-time Homebuyer Programs

First-time homebuyer programs provide flexible financing options, down payment and closing cost assistance, low down payments, homebuyer education, special loans, below-market interest rates, deferred repayment, lease-to-own options, and other forms of assistance designed to minimize the initial costs of homeownership for low- to moderate-income first-time homebuyers. Other services include post-purchase counseling to reduce the risk of foreclosure associated with low-income homebuyers. In some cases, special foreclosure prevention funds are set up in the owner's name, such that if financial problems prevent on-time payment of a mortgage, there is a safety net in place to prevent foreclosure and displacement.

Live Where You Work/Transit Programs

Aligned with environmental concerns such as improving air quality, while simultaneously rebuilding the city core and revitalizing once vibrant places, "live where you work" and other transit-centered programs strive to return residents to the city center. By focusing on the convenience of residing in a city center, close to employment, these programs emphasize the savings realized through the utilization of public transit options. Whether target structures are new or rehabilitated units within urban communities, home purchasers enjoy incentives such as low interest rates, subsidized closing costs, assistance with mortgage insurance, and the added benefit of living close to their place of employment; at the same time, these programs reduce individuals' commute times as well as the transportation-related strains on the environment.

Innovative Tools

Other innovative tools in the production and rehabilitation of affordable housing are in effect across the country. Creative strategies to reduce the cost of home repair and rehabilitation, alternative financing options, land planning and unconventional zoning schemes (multifamily, overlay, and homeownership zones, etc.), in addition to the creation of multifamily units combining social services with affordable housing, all represent viable tools in the effort to maintain communities in which families can afford to live, work, and prosper.

Best Practices in Home Financing

Enterprise Community Partners, Inc. Mortgage Assistance Program (MAP), Dallas

Relying on HUD funding, Enterprise Community Partners, Inc. Mortgage Assistance Program (MAP) provides assistance to first-time homebuyers in the city of Dallas.[13] Enterprise Dallas offers two MAP programs, both of which are limited to first-time homebuyers. The first MAP program targets families with income levels at or below 80% of the Dallas AMI. Through an interest-free second lien, prospective homebuyers can qualify for up to $5,000 to pay closing costs and a down payment. For homes in need of substantial repair, homebuyers can also qualify for an additional $1,500 to renovate the property. The second MAP program targets families at or below 60% of the Dallas AMI; those who qualify are eligible for second liens up to $10,000.[14] While actual loan amounts vary, the maximum loan amount allowable under the MAP program follows FHA 203B guidelines.[15] Currently, there are more than $3 million in MAP funding available, and to date MAP has successfully assisted families with more than 5,800 loans. In addition to addressing the needs of low- to middle-income first-time homebuyers, Enterprise actively removes other barriers to homeownership, including the lack of fit and affordable housing. With plans to undertake a $30 million renovation and new home construction project in Dallas, Enterprise intends to generate 2,200 affordable homes in the next 3 years.[16]

Family Child Care Homeownership Program, Los Angeles

The Family Child Care Homeownership Program (FCCHP) of Los Angeles is a specialized program designed to meet the growing need for quality child care in the Los Angeles area, generate stability in home-based businesses dedicated to the care of children, and increase homeownership among child care providers, especially those engaged in kith and kin care.[17] In the initial phase of the program, there were some notable problems with implementation and the experience of the participants. For example, homebuyers found that the only homes they could afford required such extensive rehabilitation that the subsidy of $20,000 they received through the program simply would not cover the cost of the repairs.

However, many of the challenges experienced during the first phase were addressed during the second phase of implementation. To increase the rate of homeownership for home-based child care providers, the FCCHP relied on subsidies, deferred loans, and flexible mortgage financing (Credit Flex); however, many of the tools used were applicable only to child care providers and not to the larger low-income population. During the second phase, however, the FCCHP utilized another Enterprise program which had already rehabilitated housing and was marketing it as low-income, affordable housing. The initial costs remained low, with buyers required only to put $500 of their own funds toward the 3% down payment; the remaining down payment could come from grants, gifts, or other sources. What is unique about this program is primarily the target population: child care providers. More than this, the impact that quality, spacious, energy-efficient housing with multiple bedrooms (in a community where space is at a premium) can have on the child care experience is an added benefit of the program. In this way, the FCCHP contributes to the existing services available within the community and fosters economic independence and homeownership for providers.

Smart Commute Mortgage (SCM) Program, Minneapolis

Instituted in 2001, the Smart Commute Mortgage (SCM) Program in Minneapolis is a model program created by Fannie Mae and adopted by a number of cities across the nation, including Pittsburgh, Philadelphia, and Salt Lake City.[18] The goal of the program is to encourage homebuyers to purchase housing in empowerment zones, close to transit systems, where revitalization efforts are underway. The target areas are primarily poor and characterized by substantial decline. Components of the program include:

1. Low down payments (3% of home cost);
2. Free public transit use for a 1-year period;
3. Automatic income inflation[19] to qualify for larger loan amounts ($200/month);
4. Closing cost assistance for those purchasing homes in the empowerment zones ($2,500); and
5. Less stringent qualification guidelines for loans, such as a higher debt-to-income ratio.[20]

The $3 million initial investment in the program aimed to fund 20 to 30 mortgages, and in the pilot phase, 24 mortgages were closed. Interestingly, the cap on the SCM loan amount is relatively high at over $320,000, and as such, many middle-class families can benefit from the program. However, the program encourages families to move to empowerment zones, thereby minimizing the concentration of poverty and promoting mixed-income neighborhoods. Since the creation of the new light rail system in the Twin Cities, the public transit system has become more convenient and accessible, making it a much more attractive option for downtown commuters. In line with smart growth and environmentally oriented city planning, the SCM program meets the needs of prospective homeowners who might not normally consider living in communities located close to public transit systems and provides an incentive for relocating to these areas.

Section 8 Homeownership Programs

Designed to provide homes, as opposed to just housing, Section 8 homeownership programs (part of the Section 8 Housing Choice Voucher program) provide to individuals once relegated to permanent temporary housing the ability to achieve the American dream. The homeownership program is available in Michigan, Minnesota, Virginia, Iowa, Ohio, Florida, Wisconsin, California, and a number of east coast states, among others. Despite the availability of Section 8 homeownership programs, many major cities do not have administrators of the program, even when other cities in the state offer it.

The Section 8 Homeownership Program assists prospective homeowners in finding adequate properties to purchase and provides education and homeownership counseling, home inspections, and funding for participants. Administered by Public Housing Agencies (PHA), HUD outlines a number of requirements for participation in the program. Requirements for PHAs include: (a) a 3% down payment (1% of which should come from the prospective purchaser's financial resources); (b) financing provided by and/or insured by the government at the state or federal level; and (c) a demonstrated capacity to operate Section 8 home purchase programs. However, federal funding for program administration is not provided by the federal government, so many PHAs who could participate in the program do not because they lack the resources to do so.

The Housing Authority of the City of Pittsburgh (HACP) operates a Section 8 homeownership program. The intention of the program is to transition renters into homeownership, with the eventual goal of assisting them in acquiring 20% equity in their home.[21] First-time homebuyers have the option to purchase their current rental residence or another residence within the city of Pittsburgh. The minimum annual income requirement for families is $17,000, and one member of the family must be employed full time. HACP pays for the majority of costs associated with the home purchase, including appraisal, application, flood insurance, document processing, and 3 years of home insurance and home warranty, and also creates a 6-months' foreclosure prevention fund with the understanding that the homebuyer will complete post-purchase counseling. HACP's single point of contact approach to home buying and financing affords low-income families the resources to effectively navigate their way from renting to homeownership. As of 2005, HACP had provided homeowner education courses to 400 families; 33 were in escrow, 34 had been preapproved for mortgages, 10 planned to purchase HACP-owned homes, and 23 had closed on a property. In addition, 190 families were receiving credit counseling prior to the initiation of the home-buying process.[22]

Soft Second Loan (SSL) Program, Massachusetts

Massachusetts's Soft Second Loan (SSL) program assists working-class families with home financing by using a model of public–private collaboration. Sponsored by the Massachusetts Bankers Association, Massachusetts Housing Partnership (MHP), and the State Department of Housing and Community Development (DHCD), the SSL program supports first-time homebuyers only.[23] Further, the SSL program requires a 3% minimum down payment and a conventional bank loan as the primary loan, but in return, the state subsidizes the second loan, and homeowners pay interest only for the first 10 years.[24] Up to half of the 3% down payment can be a gift or grant from an individual or organization, and some first-time homebuyers also qualify for subsidies to assist in paying up to 75% of the interest-only portion of the secondary loan.[25] Through the program, homebuyers are able to minimize home-buying costs by maintaining lower mortgage payments and avoiding costly private mortgage insurance and paying "points.". An additional resource mandated by the program is homebuyer/homeowner education, which must occur within 1 year of the closing; consequently, the educational element of the program is credited with the maintenance of a remarkably low rate of foreclosures; only 27 foreclosures have occurred in the program, out of 8,700 households served.[26]

Best Practices in the Rehabilitation of Existing Housing

Campus Circle Comprehensive Neighborhood Revitalization Initiative, Milwaukee

Responding to the deterioration of portions of the Milwaukee metropolitan area, especially those 90 square blocks surrounding the Marquette University campus, the Campus Circle Comprehensive Neighborhood Revitalization Initiative (CCCNRI) sponsored a comprehensive strategy for community revitalization. Among the goals of the project, the Campus Circle Initiative sought to increase available low-cost housing through rehabilitation, expand commercial business opportunities, and augment student housing options.[27] Funding and development capital for the $50 million initiative came from a large start-up donation, the city government, and nonprofit support.[28]

Responding to absentee landlords, high crime rates, a high proportion of bars and nightclubs, low homeownership rates, and relatively few housing options for families, the initiative renovated units to make them suitable for families, purchased and closed a significant proportion of the bars, engaged in community policing efforts, and created commercial retail spaces.[29] Controlling well over 1,000 units and having rehabilitated nearly 200 units without raising rents, the program has made a profound difference in the once blighted portion of Milwaukee, employing adaptive reuse strategies and the rehabilitation of older, deteriorating properties along with new construction. The creation of Campus Town, housing Marquette students off campus, finally brought retail businesses to the area, including the grocery store area residents had so desperately sought. At the same time, the program has also brought educational resources into the community; by capitalizing on the strengths of the university, service learning programs, and the intellectual capital already present within the community, the partnership spearheaded literacy programs, teacher training programs, tutoring, and parent education for neighborhood residents. According to HUD, the innovative approach to combining social services with affordable housing initiatives and the unique partnership approach engendered by the CCCNRI has garnered national attention. As of 2002, more than 25 organizations, many of which are urban universities, have visited the program site to pursue replication plans.[30]

Don't Move, Improve, South Bronx

Designated as a United Nations Habitat best practice, the “Don’t Move, Improve” South Bronx initiative has not only received national recognition and a number of awards for excellence, but also served as a model program replicated across the United States.[31] The goal of the Bronx Center Project is to improve living conditions in the South Bronx such that the community remains attractive to families and individuals. This is achieved through the financial investment of over $100 million in the community, the establishment of community partnerships with youth groups, schools, health centers, and the like, and an active campaign to convince residents that their community is worth the investment. Credited with saving the South Bronx, Don't Move, Improve is a comprehensive community initiative that incorporates a range of services and goals; increasing the quality and affordability of housing in the South Bronx is just one of many accomplishments of the program. Ultimately, the program intends to revitalize a 300-block area of the Bronx with a $2 billion plan which will:

1. Establish a community labor exchange, including sweat equity programs;
2. Rehabilitate a landmark courthouse building, which will serve as a community center;
3. Create magnet schools centered on specific disciplines;
4. Build a senior citizen's housing complex using HUD funding;
5. Encourage homeownership in the Bronx through grant provisions and loans;
6. Generate permanent housing units for low-income and homeless families; and
7. Renovate abandoned buildings in the area.[32]

In the 10-year period from 1988 to 1997, the Bronx Center's program helped generate 10,000 housing units in the South Bronx using private and public monies, community development corporation support, investor tax credits for the renovation and construction of affordable housing, and other creative financing opportunities.[33] By maintaining a mix of incomes and investing in the neighborhood and residents, as opposed to simply supporting housing, the Bronx Center's progress represents a true renaissance for the South Bronx.

Smart Building Codes, New Jersey

Despite well-intentioned policies designed to encourage growth, many regulatory barriers thwart the rehabilitation of older, existing housing in inner-city areas. The sub-code initiated by New Jersey not only sought to improve the safety of existing structures, but also encouraged the rehabilitation of older housing, ultimately making rehabilitation more affordable and feasible within urban communities. The institution of the sub-code contributed to a 60% increase in the value of rehab projects in New Jersey's five largest cities,[34] while simultaneously decreasing the cost of engaging in the rehabilitation of older properties by up to 40%.[35]

Best Practices in the Creation of New Affordable Housing Units

Moderately Priced Dwelling Unit (MPDU) Program, Montgomery County, Maryland

Mandatory zoning and inclusionary housing practices represent one viable solution to ensuring the production of affordable housing.[36] Widely acknowledged as one of the first mandatory inclusionary housing policies in the United States, Montgomery County, Maryland, passed legislation in 1974 to ensure affordable housing aimed at families with low to moderate incomes. The legislation required that builders and developers produce a minimum of 12.5 to 15% of the units per subdivision or multifamily high rise (with 50 or more units) to be sold or rented at affordable prices. [37] In addition, the legislation contains a provision that allows the housing authority to purchase up to 30% of the moderately priced units for low-income transitional housing and other programs. To minimize some of the potential costs associated with the creation of affordable housing units, the program provided a density bonus allowance to developers participating in the program, which entailed an increase of up to 22% in the density of applicable subdivisions. One of the controls embedded in the program specifies a minimum time frame in which the moderately priced housing must remain affordable; the time frame originally ranged from 10 to 30 years, but resale restrictions and change-in-ownership restrictions were expanded to 30 years.

Since 1974, the Montgomery County neighborhoods surrounding Washington, D.C., once some of the most affluent, have become increasingly mixed-income communities; through a series of four inclusionary programs, the legislation has effectively led to the creation of over 13,000 affordable housing units throughout the county.[38] To qualify for a moderately priced housing unit, families must have an income at or below 70% of the area's median family income.[39] However, some of the families occupying the moderately priced housing units, especially those owned by the housing authority, have incomes below $10,000. With an annual operating budget of just over $400,000, the implementation of the MPDU model imposes few financial burdens for municipalities and has been replicated in a number of neighboring counties in Maryland, as well as other locales across the nation.[40]

S. M.A.R.T Housing™, Austin

The S.M.A.R.T (Safe, Mixed-Income, Accessible, Reasonably Priced and Transit Oriented) Housing™ program, adopted by Austin City Council members in 2000, has been recognized both nationally and internationally as an innovative strategy to address the need for affordable housing for low- to moderate-income families in urban areas. Relying on a development model rooted in an incentive system, the S.M.A.R.T. Housing™ program encourages developers to voluntarily produce affordable housing options. The forms of incentive include fee waivers (for zoning, permits, inspection, and capital recovery) and a special expedited and efficient review process that is twice as fast as the standard review process. To qualify as S.M.A.R.T. Housing™, developers must designate a minimum of 10% of the units as affordable. However, the incentive structure is such that fee waivers increase as the proportion of housing deemed affordable increases, such that if 40% of the new housing units are affordable, developers have 100% of their fees waived.

Aside from the obvious benefit of an increase in the availability of affordable housing options, residents of Austin reap other benefits from the program as well. New housing construction is higher quality, conforms to heightened green energy efficiency standards, is disabled-accessible, and is fundamentally transit-oriented to encourage the use of public transportation. To date, the program has created 4,900 housing units, 80% of which are affordable to a family with an income at or below 80% of the local median family income; from 2001 to 2004, the proportion of units affordable to families at 60% of the area median family income increased by 25%.[41] As a result of the notable accomplishments of S.M.A.R.T Housing™, the Austin program has received the Robert L. Woodson, Jr. Award from HUD and a best practice designation from the International City/County Manager's Association; in addition, various other S.M.A.R.T Housing™ initiatives across the United States, following the same model and incentive structure, have been recognized with local, regional, and national awards.[42]

Best Practices in Multifamily Unit Rehabilitation and Construction

Housing Trust of Santa Clara County Multi-Family Rental (MFR) Program

Although many other housing trusts operate across the nation, the Housing Trust of Santa Clara County is distinct insofar as it relies on the private sector for a significant portion of its funding; in just 2 years, the organization was able to raise $20 million through fundraising efforts. The Trust's resources are divided equally among three target groups: the homeless, first-time homebuyers, and renters in need of financial assistance. In addition, it operates funding programs that provide support for development and ownership, primarily by nonprofits, of affordable housing options. To date, the Housing Trust has created over 6,000 housing opportunities and invested over $5 million in creating safe, affordable, and quality rental options through the Multi-family Rental Program.[43]

The Multi-Family Rental (MFR) Program in Santa Clara County is an initiative directed at nonprofits or public agencies that plan to own, create, or sponsor low-income housing opportunities. To qualify for the program, projects are required to dedicate almost one third of the units to households with incomes at 30% of the area median income. The remaining portion of the units in the structure must be targeted to families with incomes at or below 80% of the area median income.[44] The MFR program designates a number of standards of operation to assure smart growth and mixed-use land development in areas close to public transit and job centers.[45] Loan types range from predevelopment acquisition and construction gap loans to long-term gap or permanent loans, with a total annual amount not to exceed $2 million or $500,000 per individual project. The program has supported the development of both small multifamily units and those housing over 200 units.

Innovative and Promising Practices in Affordable Housing

The Loading Dock, Baltimore

The Loading Dock, Inc. (TLD) is a nonprofit in Baltimore, Maryland, dedicated to increasing stocks of affordable housing by providing low-cost building materials in an eco-friendly way, thus reducing landfill use.[46] The nonprofit, entirely self-sufficient, has been in existence since 1984. Since its inception, TLD has effectively saved low-income housing projects over $16 million, while at the same time offering contractors and manufacturers significant savings in the form of building material acquisition and dumping and storage fees for the disposal of used building materials, toxic elements, and paint. At its most basic level, TLD is a reuse facility, salvaging and redistributing over 33,000 tons of used materials. Currently, TLD plays a role in the rehabilitation of almost 10,000 homes annually.

The reuse facility is funded by donors (public and private), individuals, and builders/contractors. Member organizations and individuals are able to acquire used materials for a minimal handling fee, at a cost far below retail, making traditionally costly repairs affordable for modest-income families, nonprofits, and other community groups. The available building materials include appliances, windows, plumbing, hardware, doors, cabinets, and even flooring materials. The organization also provides home improvement workshops and free paint for individuals and organizations, as well as technical assistance to organizations interested in establishing similar programs. As the recipient of the Presidential Award for Sustainable Development and the United Nations Habitat II National Excellence Award, TLD has not only created an environmentally sound approach to the rehabilitation of housing, but has also assisted families in creating decent housing and engaging in home repair, which normally would not be financially feasible given limited resources.

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Impacting Public Policy - The Williams Institute Affordable Housing and Poverty Research Center

The importance of affordable housing is evident from the findings presented in the Williams Institute's Wholeness Index. Lack of a robust and comprehensive regional affordable housing plan, the critical shortage of affordable housing options in areas such as South Dallas, and the significant population growth the North Texas region will experience over the next 10 to 15 years necessitates public policies allowing us to meet current and future affordable housing demands. To this end, the J. McDonald Williams Institute is creating the ***Williams Institute Affordable Housing and Poverty Research Center (AHPRC)***. The mission of AHPRC will be twofold:

1. To engage in applied research leading to effective public policy and profitable private solutions that address the need for increased homeownership opportunities for working-class and low-income families.
2. To investigate effective strategies to reduce concentrated poverty.

AHPRC intends to engage a multidisciplinary team of researchers from institutions such as Paul Quinn College, the University of North Texas at Dallas, the University of Texas at Dallas, and Southern Methodist University to achieve these goals. In addition, AHPRC will collaborate with other scholars across the country to conduct high-impact, actionable affordable housing and poverty research. Special emphasis will be placed on working with researchers at historically African American and Hispanic institutions. To make data and research actionable, AHPRC members will engage in dissemination of information and findings through periodic publications, conferences, workshops, and legislative testimonies. AHPRC also plans to develop a 12-member advisory board consisting of local mayors, county commissioners, philanthropic institutions, community-based organizations, and public policy makers.

The task of the advisory board will be to assist AHPRC in the continual development of an applied, action-oriented research agenda that results in effective public policies and market-based research identifying affordable housing opportunities, such that businesses, lending institutions, and citizens can achieve optimal benefits. Another primary focus of the Center is to develop new models of empirical and qualitative research that generate novel and innovative knowledge surrounding how to best address issues encompassing concentrated poverty. We believe this effort is important because many local and regional municipalities are coming to the realization that sustainable answers to concentrated poverty must contain local solutions; our aim is to guide such dialogue. More than this, our intention is to guide it in a manner that will allow for the implementation of creative programs, such as placed-based philanthropy, which have demonstrated that these types of solutions are part of the strategy toward moving individuals out of poverty into homeownership and into a spirit of hope.

To our knowledge, the J. McDonald Williams Institute is the only major think tank in the country that has been developed out of a community-based organization. We believe this distinction allows us to possess a unique understanding of what type of research and policy suggestions benefit practitioners, financial institutions, governmental organizations, and community-based organizations and will create sustainable results. Our aim is for AHPRC to build on that uniqueness and provide real, timely, and effective affordable housing and poverty research.

Affordable Housing and Poverty Research Center Future Research Projects: Applied Research Informing Public Policy

Annual State of North Texas Affordable Housing Report

A recent report titled the *Texas Cities Housing Report Card* gave many cities in our state very low marks on funding and policies geared toward increasing affordable housing opportunities for moderate- and low-income families. The report evaluates cities in several key areas such as leadership in prioritizing affordable housing, public dollars invested in affordable housing, and the production of affordable housing units. Many of the major cities in Texas, such as Dallas, did not fare well. It is our belief that a comprehensive regional affordable housing agenda needs to be instituted. As population growth continues to expand North Texas and wages continue to lag behind increasing housing costs, more and more municipalities will face issues pertaining to affordable housing. A more effective solution would involve a comprehensive regional affordable housing plan. This report seeks to (a) determine where the region should be with respect to the goals of affordable housing, (b) annually measure how we are doing, and (c) suggest what public policies should be enacted to help us achieve these goals.

North Texas Neighborhood Characteristics Windshield Surveys

A micro-level research approach often used is Windshield Surveys—a process whereby land parcels and physical structures in low-income and working-class neighborhoods are visually inspected and systematically matched with other administrative data to create neighborhood typologies. In turn, these neighborhood typologies provide updated social and economic data to community development corporations (CDCs), local governments, and community groups to help determine how to best revitalize and sustain those communities as vibrant and thriving neighborhoods. In addition, this method may allow researchers to identify "tipping points"—factors that allow a community to thrive or fail—thereby helping policymakers understand which factors predispose a neighborhood to social and economic shifts. The Williams Institute, through its Center for Urban Economics, has performed Windshield Surveys in the South Dallas/Fair Park area, which entailed the visual examination and rating of more than 11,333 parcels, and West Dallas, which included more than 11,391 parcels.

Spatial Analysis of Redlining

One of the unique skills the Williams Institute possesses is extensive experience employing spatial analysis techniques to address questions of urban revitalization. Spatial analysis is a technique whereby locations, attributes, and relationships of features of neighborhoods, cities, and regions are examined using spatial data to graphically present data. Spatial analysis affords the Williams Institute an opportunity to offer policymakers, public officials, and community groups placed-based solutions that can be tailored to fit the needs of specific communities. The Affordable Housing and Poverty Research Center (AHPRC) plans to engage in ongoing analyses of differentials in mortgage costs, insurance, and access to retail locations such as grocery stores by using neighborhood typologies in North Texas.

Homeownership and Neighborhood Conditions

Although the benefits of homeownership, such as increased wealth, are well-known, the impact of homeownership on neighborhood conditions is not only less understood, but has also been only sparsely quantified. For example, recent research by scholars at Johns Hopkins University has suggested homeownership has its greatest impact on academic achievement. Their results have suggested that a child who has consistently lived in an owned home is estimated to successfully complete nearly half a year of school more than a child whose parents were continually renting.[1] Research by the Williams Institute's AHPRC seeks to identify and quantify the social return on investment (SROI) at the neighborhood level for various levels of homeownership in North Texas neighborhoods.

Evaluating the Effectiveness of North Texas CDCs

To our knowledge, there has been no systematic and comprehensive evaluation of CDCs working in the North Texas area. AHPRC plans to conduct ongoing systematic comprehensive analyses of local CDCs to evaluate and monitor performance measures as they relate to output targets (CDC milestones) and quantifiable outcomes. In addition, the Center will also examine case studies identifying qualitative factors pointing to reasons for success or failure to attain stated goals by local CDCs.

Immigrant Housing Opportunities and Economic Mobility

North Texas continues to be one of the fastest growing metropolitan areas in the country. With an estimated 1.1 million non-White Hispanics in the region and a population increase of 600,000 in the North Texas area between 1990 and 2000, the increase in homeownership among Hispanics must become a chief priority. The Center intends to perform ongoing observation and measurement of how North Texas is faring with respect to providing affordable housing opportunities to this growing segment of our population. Specific attention will be accorded to reducing barriers impacting the ability of those in the Hispanic community to access and achieve acquisition of decent and affordable housing.

Racial, Ethnic, and Economic Differentials in Homeownership Rates

Not only do vast disparities in homeownership rates between Whites, African Americans, and Hispanics exist, but recent research has also suggested that significant differences in homeownership rates and mortgage characteristics of these groups within middle- and upper-income categories persist as well. In addition to disparities in homeownership rates, current data indicate the sustainability of homeownership varies according to racial and ethnic group membership. The Center's research in this area will focus on the impact of differences in the sustainability of homeownership (e.g., foreclosures, etc.) for groups moving into the homeownership category, as well as differences over time in the value of these homes across neighborhoods in North Texas.

Home Mortgage Disclosure Act's (HMDA) Impact on Lending Discrimination in Texas and North Texas

The Community Reinvestment Act was designed with the intention of encouraging banks and other lending institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. Although there have been great strides in improving lending practices, many low- and moderate-income communities remain significantly underserved by banking and other lending institutions. We believe the Center, in collaboration with the Williams Institute Center for Urban Economics, can assist these institutions through the provision and analysis of economic and other market data to effectively expose opportunities for private investment in affordable housing in low-income and moderate-income communities. We believe the current models used to determine the prevalence of opportunities underestimate the real potential lying within low-income and moderate-income communities—potential financial rewards for investors interested in promoting smart growth, while simultaneously adding to the stability and revitalization of communities.

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