Inclusionary DEVELOPMENT

KIM FERNANDEZ

More developers are entering the affordable housing business, but is regional equity a realistic goal?

FOR YEARS, THE TERM "REGIONAL EQUITY" has been tossed around large metropolitan areas, studied at conferences, and held up as an ideal at urban planning meetings. And it all sounds great: give everyone, regardless of income, race, or education, access to an equal quality of schools, health care, housing opportunities, services, and infrastructure.

While the concept is good, implementation has been difficult, particularly as housing prices in and around major metropolitan areas have skyrocketed. With construction costs and land costs at record levels, finding a way to provide truly equal-opportunity housing in areas with strong services has not always seemed economically feasible. After all, it is tough to build apartments or condominiums for lower-income Americans—who are unable to spend as much on housing as their upper-middle-class counterparts—when costs for materials and land are going through the roof.

Those who advocate regional equity, however, say things are changing, particularly when it comes to providing realistic housing opportunities for working-class Americans, including those employed in the public sector. Thanks to innovative financing and several public/private partnerships linking county or city governments, nonprofits, and builders, unsubsidized affordable housing is becoming a reality in more large metropolitan areas, bringing things like outstanding schools and services within the reach of people who teach, fight fires, serve as police officers, or help build homes themselves.

And, advocates say, as developers and housing managers get wind of these programs, they will be willing to investigate becoming part of the regional equity movement in the future.

The Trend

Advocates of regional equity say one of the main challenges to making the concept a reality is finding a way to bring lower-income families into cities and close-in suburbs without plopping them into crime-ridden housing projects.

"We're seeing some key developers around the country who are really aware of the role of place and how place shapes outcomes for families," says Radhika K. Fox, associate director with PolicyLink, an Oakland, California–based nonprofit that works with developers, cities, and counties across the United States to promote and increase regional equity. "We're seeing builders really thinking about not only how to build a housing development, but how to integrate it into the community in a way that strengthens the community and helps families connect to resources."

The Racial Justice and Regional Equity Project of the Institute on Race & Poverty at the University of Minnesota Law School says housing initiatives are critical to achieving regional equity. The group believes that affordable housing too often is clustered in inner cities—too far from developing suburbs, which provide the most opportunities for jobs and resources for poorer families.

"Affordable housing is often entirely unavailable in growing suburbs because

The Teresa Roldan Apartments, located in Chicago's Humboldt Park area.

exclusionary zoning, such as large-lot-size requirements, makes it difficult to build housing at a cost that low-income families can afford," the group says on its Web site. It advocates mixed-income development in high-poverty cities and suburbs to seamlessly blend market-rate housing with more affordable options in the same development, condominium project, or apartment building.

"It goes beyond affordable housing," says Paul Roldan, president of the Chicago-based Hispanic Housing Development Corporation, and a member of ULI's Inner-City Advisors Program, established in 1994 to share knowledge on inner-city development matters. "It has to do with retail development, charter schools, and other physical facilities that help energize neighborhoods."

Roldan sees a great divide along racial lines, at least in Chicago and its suburbs. "This movement started 15 or 18 years ago," he explains. "Magic Johnson felt there was money to be made in African American communities. In the counties where he started working and making money, larger equity perked up and members of that community started doing it themselves. But this has not had a counterpart in Latino communities. The African American equity people have been incredible. And it seems to me that this is a huge market: we keep hearing these incredible demographic statistics like there are more Latinos in America than the entire population of Canada."

Making It Happen

The Hispanic Housing Development Corporation started building affordable housing about 30 years ago after a group of ministers, business leaders, and other organizers complained to the governor of Illinois about the lack of reasonably priced housing in the state. The nonprofit now manages more than 4,000 apartments and has its own for-profit construction company, allowing it to construct more housing and retail space every year.

"The cost of land is very prohibitive and has increased dramatically over time," says Roldan. "When I first arrived in Chicago, there were abandoned apartment buildings. People literally just walked away from them." Savvy developers could snatch up the buildings in city sales and control them for six to 12 months while required to put little cash down. That is just not the case anymore, says Roldan.

"One of the challenges that we've got is that not only is the Latino population growing, but also the median family income is $38,000 to $39,000 per year," he says. "That means the median sales price of a single-family home far outstrips the median family income. And increasingly, people are being left out of the opportunity to own anything, even condos."

Roldan's company is fighting that situation in several creative ways. It has worked out an agreement with the U.S. Department of Housing and Urban Development (HUD) to buy for 50 percent of their appraised value properties

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that have gone into default. The firm then rehabilitates the homes and sells them at cost to people who live in the surrounding community. "We've done more than 100 buildings, and the average income of our buyers is $43,000 per year," he says.

He has also worked with state and city housing agencies to tap into an affordable housing trust fund that allows him to rent out apartments at 10 to 15 percent below market rates. This also allows working-class families to live in neighborhoods they otherwise could not afford.

Other developers have worked out similar programs across the country. In New York City, the Housing Partnership Development Corporation and the Community Preservation Corporation (CPC), both nonprofit entities, link developers with innovative sources of capital, low-cost land, and lending corporations that have specific programs for builders of affordable housing.

Dan Martin, president of Housing Partnership, says the nonprofit firm develops about 2,000 units per year this way, and is currently working on 43 projects.

The challenge for his group is to find sites for development, he says. Thanks to a partnership with the city, the group recently acquired city-owned land at very low cost or, in some cases, for nothing. It then layers on development subsidies to bring the cost of the project down, which, in turn, brings the cost of homeownership within reach of working-class families in and around Manhattan.

Developers are eager to get in on the projects. "We typically have 20 requests for every end loan we put out," he says. "We're looking at below-market pricing, and the only risk the developer has is the construction risk. We limit their developer profit to 8 to 13 percent, so they're not making a big payday on this. But we're also taking the risk out of the equation."

The city's commitment to equity is a big reason the partnership has succeeded, says Michael Lappin, president and chief executive officer of CPC. "New York City has inclusionary zoning rules," he says. "So, presumably, if you're in a position to build luxury housing and you use some subsidies to build affordable housing, in some cases you can ask for zoning bonuses to increase your density and be able to do that. It's a key strategy."

HISPANIC HOUSING DEVELOPMENT CORPORATION

The ten-story, 120-unit Gateway Centre Apartments provide housing for the "near elderly" (55 and older) in the Rogers Park neighborhood of Chicago, a diverse neighborhood that has recently been affected by the forces of gentrification.

He says municipalities are much more open to offering cheap land, tax incentives, and other carrots to developers who agree to make 20 percent of new housing developments available in an affordable price range for working-class families.

ULI and Enterprise Team Up for Regional Equity Project

The Urban Land Institute and Enterprise Community Partners are implementing the Regional Equity Project to identify, document and encourage innovative strategies that increase the access of low-income communities to the benefits of regional economic growth: jobs, housing, retail services and public amenities. In particular, the project will focus on land use and development strategies that involve both the public and private sectors.

In today's global economy, the competitive geographic unit is not cities or countries, it is metropolitan regions. Each metropolitan region is competing for high quality jobs and workers. Those regions that succeed will be the ones with a clear vision of their strengths and opportunities, and with strategies in place that enable all residents to access jobs, housing, and amenities in order to reach their full potential.

Low- and moderate-income households do not necessarily benefit from regional growth and development. New public services and private investment typically drive up land and housing prices and force these households to live far from new jobs, retail services and other public amenities. These regions are at a competitive disadvantage.

The Regional Equity Project will examine ways communities can address and have addressed the needs of low- and moderate-income households in terms of regional strategies for future growth. The purpose of the project is to take the discussion about regional equity to a more practical level by expanding the community of public, private, and nonprofit leaders interested in regional equity; by identifying and documenting policies and programs; and by sharing the research via online peer training workshops and forums.

For more information on the Regional Equity Project, E-mail ULI Director of Community Outreach, Heidi Sweetnam, at hsweetnam@uli.org.

"There are developers who are in this not only for the bottom line and really want to create affordable housing," he says. "And municipalities are looking for strategies to incentivize developers to building affordable housing. "

Fox says her organization is seeing that trend across the country. "We are seeing developers much more engaged in workforce housing, particularly in high-cost housing markets like Washington, D.C., New York City, and Chicago," she says.

Builders in Pasadena, California, are required either to make a percentage of each development affordable, or pay an in-lieu fee so the city can develop such housing elsewhere. Under the city's Inclusionary Housing Ordinance, developers building ten or more units at a time must either reserve 15 percent for affordable housing or pony up the fee, which goes into a trust fund designed to create workforce housing.

"There's obviously a lot of sentiment that Los Angeles needs to begin addressing the issues of housing affordability and the creation of workforce housing," says Phil Hart, executive director of ULI Los Angeles.

The trust fund currently contains $10 million, he says, and another $10 million is expected shortly. "What we have recommended, among other things, is to figure out how to leverage that fund so that $20 million becomes $100 million," he says.

While the ordinance has met with some resistance, most developers are supportive and more than willing to set aside a percentage of their projects to sell or rent at below-market rates.

Other cities have adopted similar ordinances. "We're seeing more developers finding ways to make [affordable housing development] work and still get a reasonable rate of return on their projects," says Fox.

The Future

A record number of loan foreclosures is expected over the next few years as creatively financed adjustable-rate mortgages come due. As interest rates increase exponentially under these mortgage agreements, low- to middle-income families will be priced out of the homes they own. Roldan is hoping that legislative changes will tightly regulate these sorts of loans in the future. "In my opinion, we're going to see this as a low point in the brokerage industry in America," he says. "They've violated ethical and moral obligations to their clients, and we're going to see a whole group of people facing very difficult times as a result."

Others agree, but say the coming trials may mean opportunities for those who want to get into the affordable housing market.

"The industry is going to respond in a number of ways," says Lappin. "It's to their benefit to restructure these loans and not push people into default; it's much more expensive for banks to go into default. Larger institutions are going to figure out a way not to foreclose and for people to continue to afford their homes."

Others will get into the game as well, says Roldan. "There are entrepreneurs who are buying these homes from banks at deep discounts," he says. They then will turn around and sell the homes back to their original owners or to other lower-income families at a price well below market value. Others will rent the properties out and, because they obtained them cheaply, will be able to set aside at least some units as affordable.

"It's a problem that's scattered throughout communities," he says. "We need to organize something that can deal with the physical condition of these homes, deal with the banks, and deal with the families in these situations."

Lappin adds, "There are a lot of institutions that have originated these loans and are involved in this and a lot of strategies to deal with it. It's a serious problem, and there's going to be a great deal of fallout from it. The question is how to slow it down and keep it from becoming a catastrophe. How do you remediate it for those people who've already lost their homes?" **MFT**

KIM FERNANDEZ is a Bethesda, Maryland–based freelance writer who frequently covers multifamily and real estate issues.