Using Your HOME Dollars for Rental Production: A Planning Paper for Local Policy Makers

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Using Your HOME Dollars for Rental Production: A Planning Paper for Local Policy Makers

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This paper is intended to help local officials think about how to use their HOME dollars for the production of affordable rental housing. The paper provides a framework for decision-making by housing planners and program administrators in the local communities that receive allocations of federal dollars each year under the HOME Investment Partnership Program. It is based on research and theory about where and for whom the development of subsidized rental housing is most effective. The paper draws on an extensive literature review and empirical analysis conducted for HUD's Office of Policy Development and Research in 2003 and early 2004.[1]

Summary

The devolution of substantial control over housing policy to local governments and states has given the local government administrators of the HOME program the opportunity to make choices that best meet the housing needs of the people within their borders. HOME does not exist in a vacuum, but is best used strategically when related to existing spatial patterns of subsidized and unsubsidized affordable housing.

Participating Jurisdictions (PJs) can make the best use of the HOME resource when they use it in strategic combination with the federal Housing Choice Voucher program. PJ planners and program administrators should consider whether their housing market has shortages of rental housing generally or is a place where families and individuals use vouchers fairly easily.

- *If there is no shortage of rental housing, PJs should consider using HOME to fund additional vouchers.*

- *If there is a shortage, they should consider using HOME—together with allocations of the Low Income Housing Tax Credit (LIHTC) to the jurisdiction—to produce as many additional units of affordable rental housing as possible.*

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[1] Jill Khadduri, Kimberly Burnett, and David Rodda, *Targeting Rental Production Subsidies: Literature Review,* US Department of Housing and Urban Development, 2004.

Whether or not there is a shortage of rental housing, PJs should determine whether HOME rental developments are needed to maintain and expand opportunities for low-income renters to live in a broad range of neighborhoods within the jurisdiction.

- *New HOME rental developments should be located in neighborhoods where vouchers are difficult to use and there are few project-based assisted housing developments.*

- *The use of HOME to preserve older affordable housing developments—both those with project-based rental assistance and market-rate affordable housing—should concentrate on "gentrifying" neighborhoods where rents are likely to become out of reach of both voucher-holders and unassisted low-income renters.*

PJs should also consider focusing HOME rental developments on one or more of the following groups. These are types of households that generally can benefit the most from project-based subsidized rental housing.

- *Large families, who often have difficultly finding affordable rental housing that meets their needs, regardless of whether they have voucher assistance.*

- *The frail elderly, who can benefit from special design features and services when those features are made part of a rental development.*

- *People with disabilities, who often prefer to live in "mainstream" housing, but sometimes need the supervision possible in a specialized housing development or can benefit from living in a community of people with similar needs.*

PJs should view skeptically claims that a HOME rental development will help revitalize a neighborhood. Evidence on the effect of subsidized rental housing on the quality of neighborhoods suggests the following guidelines:

- *Choose neighborhoods that are in the early stages of decline or that are already showing some signs of improvement if HOME and other housing resources are the only intervention.*

- *Invest HOME funds in truly distressed neighborhoods only when they will be part of a critical mass of resources that go beyond housing to include commercial redevelopment, improved public safety and schools, and enhanced social services.*

Finally, PJs can use HOME funds most effectively when they are part of a metropolitan-wide housing and economic development strategy. The fragmented responsibility for housing subsidies within a metropolitan area makes this difficult to achieve. There are, however, steps short of formal metropolitan-wide housing planning and program administration that PJs can take to increase the chances that the total use of housing subsidy resources will best serve the interests of low-income households throughout the region. For example, it may be possible for a PJ to:

- *Influence the housing strategies of neighboring jurisdictions through data-driven presentations of housing needs and market conditions throughout a metropolitan area.*

- *Work with state policy-makers on a housing strategy for a metropolitan area in which appropriate choices are made while all jurisdictions receive a fair portion of resources.*

- *Examine its own regulatory barriers to affordable rental housing and work with state policy-makers on removing barriers across jurisdictions.*

1. The HOME Program: Choices and Strategies

Local housing and community development agencies have an important potential resource for adding to and preserving the stock of affordable rental housing in the US. Under the HOME Investment Partnership Program, 60 percent of an annual budget that has ranged between one and two billion dollars since the program's enactment in 1990 is allocated by formula to large cities and counties, as well as consortia of jurisdictions formed to meet the program's minimum threshold for an allocation.

HOME is a flexible block grant. The PJ chooses among four basic eligible activities: rental housing production, tenant-based rental subsidies, subsidies for new homebuyers, and subsidies for existing homeowners. The choice of which activities to fund and how to balance funds among them is guided by a strategic planning process, called the Comprehensive Housing Affordability Strategy (CHAS), which is one component of the Consolidated Plan required for state and local government recipients of HUD resources. The planning process is intended to be a fact-based exercise, in which PJs use both the US Census and local sources of data to assess the housing needs of renters and homeowners in order to understand what is happening in their local housing markets. HUD has provided to local planners tabulations based on both the 1990 and 2000 censuses that sort data by income groups relative to local median incomes—the CHAS data.

The extent to which actual allocations of HOME funds within a jurisdiction are guided by a strategic plan has varied widely among PJs. Some PJs have a highly developed strategy that closely guides individual funding decisions, while in others actual allocations of funds largely reflect the volume of applications for different types of activities or represent a political division of resources among stakeholders and constituency groups. [2]

- *Many PJs choose to focus a large portion of their HOME resources on rental housing, because data highlights the fact that renters with extremely low incomes have the most serious housing needs within the jurisdiction.*

- *Other jurisdictions choose to focus a major portion of their HOME resources on new homebuyers, because increasing the rate of homeownership in the city is seen as important either for the overall economic health of the city or for stabilizing particular neighborhoods.* [3]

Deciding to give high priority to the needs of low-income renters and to use HOME funds for rental housing development is just the beginning. There are many more choices to be made by local housing planners and HOME administrators about the type of rental developments, their locations, and which households will occupy them. These decisions are made both through the CHAS and through the outreach and selection processes for individual rental developments and their sponsors.

2. Using HOME as Part of a Rental Housing Strategy

HOME is part of a complex system of rental housing subsidies that includes federally funded vouchers, federally funded public and assisted rental developments, and the state-administered Low Income Housing Tax Credit (LIHTC). This means that local housing officials making decisions for the use of HOME funds must consider how their resources can best form part of an overall strategy for meeting the needs of low income renters within the jurisdiction. There are several possibilities.

- **Option 1.** *Use HOME for Rental Assistance that Supplements the Federal Housing Choice Voucher Program.*

Because the federal voucher program exists, some local policy makers may believe that HOME is better used to support rental developments dedicated to multiple-year use as housing for low-income families and individuals. However, the federal vouchers available for use in any locality are limited, and in many places—especially within large

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[2] Margery Austin Turner, G. Thomas Kingsley, Monte L. Franke, Patrick A. Covington, and Elizabeth C. Cove, *Planning to Meet Local Housing Needs: The Role of HUD's Consolidated Planning Requirements in the 1990s.* Washington, DC: The Urban Institute, December 2002, pp. 4-5.

[3] Jennifer Turnham, Christopher Herbert, Sandra Nolden, Judith Feins, and Jessica Bonjorni, *Study of Homebuyer Activity through the HOME Investment Partnerships Program.* Cambridge, MA: Abt Associates Inc., January 2004, pp. 3-17.

metropolitan areas—the number of vouchers available is far exceeded by the number of low-income renters with “worst case needs” for housing assistance.

In many housing markets and jurisdictions, tenant-based rental assistance works well. In those places, there are no shortages of rental housing. Vacancy rates for rental housing are high, demand for rental housing among relatively higher income households is stable or decreasing, or investors in rental housing would promptly respond to any increased demand by building or rehabilitating additional units without government prompting.[4]

When deciding whether to use HOME to expand the number of vouchers available for low-income renters, a PJ should look first at the experience of the voucher program administered within the jurisdiction, in particular at the “success rate” of families and individuals attempting to use vouchers.[5]

The voucher success rate is the percentage of all households issued a voucher that find rental housing that qualifies for the program and begin receiving the subsidy. A particular family or individual may not use a voucher for a variety of reasons, so success rates close to 100 percent should not be expected. Success rates range widely from place to place and from one voucher administrator to another, even within the same state or region. The national average success rate for using vouchers is around 70 percent, and a rate well above that level suggests that HOME funding for additional vouchers could be used effectively within the jurisdiction.[6]

PHAs are able to shed light on this issue by reporting the success rates for households that have been issued vouchers within the past year or two. They are required to maintain a record for each household issued a voucher and can determine whether that household began receiving assistance within a several-month period following the voucher issuance.[7] Officials administering HOME can ask for that information, but should do so in a way that makes it explicit that they are seeking success rates derived from the PHA’s administrative data, and not staff impressions.

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4 Khadduri, Burnett, and Rodda, pp. 13, 14, 47, and 48.

5 The success rate is not the same as the percentage of all vouchers issued to the PHA that are in use the “utilization rate”--because the PHA may have used fewer than all issued vouchers for reasons that are unrelated to the housing market or to the ability of individual households to use their vouchers. Meryl Finkel, Jill Khadduri, Victoria Main, Linda Pistilli, Claudia Solari, Kristin Winkel, and Michelle Wood, *Costs and Utilization in the Housing Choice Voucher Program.* Cambridge, MA: Abt Associates Inc., July 2003.

6 Meryl Finkel and Larry Buron, *Study on Section 8 Voucher Success Rates.* Cambridge, MA: Abt Associates Inc., August 2001, pp. 2-3, 2-4, C3, and C4.

7 HUD is in the process of creating a data file based on the same information, and, in the future, will be able to provide the information directly to local housing planners.

Sometimes a low voucher success rate may reflect administrative problems at the PHA rather than a housing market in which it truly is difficult to use vouchers.[8] Therefore, a PJ should also look at other information that indicates that there may be a shortage of rental housing, such as rental vacancy rates and whether rents are high compared with incomes, before deciding that a tenant-based assistance strategy would be a poor use for HOME funds.[9] If the voucher program is not working well for reasons other than a shortage of rental housing, officials administering the HOME program should consider various options that may be available to help solve that problem before giving up on the idea of using HOME to fund additional vouchers.

- **Option 2.** *Use HOME Rental Developments to Increase the Stock of Rental Housing Affordable for Voucher Holders.*

The places where it is most important to add to the supply of affordable rental housing are those in which the private market does not respond well to additional demand for housing, including the demand created by tenant-based housing vouchers. In those housing markets, the voucher program can be difficult for individual households to use, and the use of vouchers may drive up rents for both subsidized and unsubsidized households. Vouchers increase the demand for low-cost housing, which usually means more competition between subsidized and unsubsidized households. Unless private suppliers increase the production of low-cost units, the excess demand will result in higher rents. In economic terms, the places where this happens have low supply elasticity.[10]

The need for housing subsidies is by far the greatest among renters with extremely low incomes—those whose incomes are below 30 percent of the area's median income.[11] This fact—illuminated by the CHAS data for many jurisdictions—is often behind a PJ's choice to spend substantial resources on rental housing.

This does not mean, however, that HOME rental developments need always be built explicitly to serve extremely low-income households. Any HOME rental development becomes part of the overall supply of affordable rental housing available to extremely low-income households attempting to use vouchers and to other low-income households

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8 Finkel, *et al.*, pp. 10-30, and 76, and Finkel and Buron, pp.3-23.

9 HUD maintains a list of Difficult Development Areas (DDAs) that are eligible for higher amounts of tax credit under the LIHTC because they have high ratios of (Fair Market Rents) FMRs to area median incomes. This list is limited by law to areas covering no more than 20 percent of the US population, and many places with high ratios just miss making the list. HUD can supply a more complete list that shows local housing planners whether the metropolitan area within which they are located has this type of housing market. At the same time, local planners should use information, such as rental vacancy rates, about their own portion of the broader metropolitan housing market.

10 Khadduri, Burnett, and Rodda, pp. 31 and 38-41.

11 Kathryn P. Nelson, David A. Vandenbroucke, Jeffrey M. Lubell, Mark D. Shroder, and Arthur J. Reiger, *Trends in Worst Case Needs for Housing, 1978-1999.* US Department of Housing and Urban Development, Office of Policy Development and Research, December 2003, pp. 22-24.

competing with voucher holders. Studies of voucher success rates have shown that households with extremely low incomes are as likely to use the vouchers issued to them (in fact, more likely) than are households with relatively higher incomes.[12] In a locality with a sizable federal voucher program that has a low success rate because there are shortages of middle market rental housing, the development of new rental housing supported by HOME can provide additional choices both for the voucher holders themselves and for other low-income renters.

The HOME rent rules require that all HOME units have rents below the voucher program's Fair Market Rents (FMRs), so any HOME rental unit contributes to the workability of tenant-based rental assistance in the jurisdiction. Vouchers are used in HOME rental developments to a considerable extent. A recent study found that between 22 and 30 percent of HOME units are occupied by voucher holders.[13]

The HOME program rules require that at least 20 percent of units must have rents that, generally, are even lower than the FMRs. These rents—the so-called "low HOME rents"—must be no more than 30 percent of 50 percent of area median income.[14]

A PJ that insisted on yet lower rents or low HOME rents for additional units would not necessarily be making a better choice. There clearly is a trade-off between using additional HOME dollars to reach extremely low-income families and individuals without relying on the voucher subsidy and permitting HOME dollars to be spread across a larger number of units.

In addition, HOME funds are often combined with the LIHTC in the same rental development.[15] While adding HOME funds to a development to which the state is allocating LIHTC can permit rents lower than either the HOME or the LIHTC rent standard, it may be better to use these two scarce housing subsidy resources to produce a larger number of units in housing markets where there are shortages of rental housing.

To help decide how to make these tradeoffs between achieving lower rents and funding more units, the PJ should consider whether the purpose of the HOME rental development is to alleviate an overall shortage of rental housing or to serve special types of households, such as large families, the frail elderly, or people with disabilities.[16] If the housing is for particular types of housing not usually produced by the private market,

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12 Finkel and Buron, pp. 3-11.

13 Another 10 percent have project-based Section 8 assistance. Christopher Herbert, Jessica Bonjorni, Meryl Finkel, Naomi Michlin, Sandra Nolden, Karen Rich, and K.P. Srinath, *Study of the Ongoing Affordability of HOME Program Rents.* Cambridge, MA: Abt Associates Inc., June 2001.

14 Or be occupied by a household receiving federal or state project-based rental assistance. Low HOME rents do not apply to rental developments with one to four units.

15 A study of HOME developments placed in service through May 1998 showed that 58 percent also used LIHTC.Herbert *et al.*, p. 22.

16 See Section 3 of this paper for more about using HOME for these special population groups.

then adding to the supply of rental housing affordable to those above the "extremely low income" level may not affect the supply of other rental units suitable for those households. On the other hand, if the HOME development is a type of rental housing similar to that supplied by the private market, the HOME development can both expand the stock of housing available to voucher-holders and cause other rental units to "filter down" to rent levels affordable for extremely-low-income households.[17]

- **Option 3.** *Use HOME Funds to Expand the Neighborhoods within the Jurisdiction Where Low-Income Renters Can Live.*

Even in places where the choice-based voucher program works well, there often are neighborhoods where few vouchers are used. These include neighborhoods where, in theory, some voucher-qualifying rental housing is available. There are units in the neighborhood that rent for less than the FMR, but in fact few vouchers are used there.[18] They also include neighborhoods where there is little rental housing. The HOME program can be used strategically to increase the housing opportunities for low-income renters in such areas. This can be difficult, because there may be neighborhood resistance to the development of subsidized rental housing, and that resistance may be especially effective where the development requires a zoning change. Strategies for avoiding or overcoming resistance may include keeping the HOME rental development small or making it part of a larger development of market rate homeownership or rental housing.

It may be more expensive to develop rental housing in a desirable area because land costs or the costs of acquiring existing structures are high. In this case, doubling up the HOME and LIHTC subsidies may be a good use of both resources.

The HOME program administrator should inform these decisions through information from the PHA on the locations of households using vouchers. Again, this is possible for any PHA to provide, because of the household-by-household data systems that are part of the voucher program. Some PHAs will already have created maps that show where there are concentrations of voucher units or few such units. This information can be used in combination with the census tract level information in the 2000 CHAS data, which shows where rental units occupied by households at various income levels are located.

A particular target of opportunity in many jurisdictions is to preserve affordable housing that already exists in neighborhoods where housing prices are increasing rapidly (so-called "gentrifying" areas).   The neighborhood may be available to voucher holders now,

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[17] John C. Weicher and Thomas G. Thibodeau, "Filtering and Housing Markets: An Empirical Analysis," *Journal of Urban Economics*, 23 (1988), pp. 21-40.

[18] Deborah J. Devine, Robert W. Gray, Lester Rubin, and Lydia B. Taghavi, *Housing Choice Voucher Location Patterns: Implications for Participant and Neighborhood Welfare,* US Department of Housing and Urban Development, Office of Policy Development and Research, January 2003, p. 11.

but rents are expected to rise significantly in the future, or owners may prefer to rent the few remaining affordable units to unsubsidized households. Preserving affordable rental housing developments in such neighborhoods will enable low-income families to live in mixed-income neighborhoods and neighborhoods with transportation nodes, proximity to economically revitalized central business districts, or other advantages that are fueling the neighborhood change.

This is a particularly effective approach. The developments already exist, so it is not necessary to overcome zoning or other regulatory barriers to creating them. Furthermore, in many cases it will be possible to preserve federal project-based rental subsidies to help cover the developments' costs.

Not every development for which the owner has the ability to refuse to renew a project-based Section 8 contract is a good investment for HOME funds. Many such developments are in neighborhoods where vouchers are easily used. If the owner "opts out" of a rental assistance contract, then either the same development will continue to exist at market rents below the FMR or other rental housing will be available to voucher-holders in the same neighborhood. In addition, assisted developments in neighborhoods where market rents are relatively low are the most likely developments to be preserved through the federal Mark to Market program.[19] Therefore, PJ decision-makers should consider carefully whether an assisted rental development applying for HOME funds truly is "at risk" of becoming unaffordable.

If the PJ is using HOME funds to create new rental housing opportunities in areas of the city where few voucher-holders or other low-income families live, it should make sure that voucher holders know about the HOME development and can consider it among their choices of housing.

3. Using HOME for Types of Households Particularly Well Served by Dedicated Rental Developments.

All groups of low-income renters do not have the same levels of need for subsidized housing. Housing needs differ, not just by the severity of the household's income problem, but also by household characteristics such as presence of children or of adults with disabilities. Furthermore, some types of families and individuals have more difficulty using tenant-based vouchers or can benefit from the special housing features and services that may be associated with a development dedicated to serve as affordable rental housing. There are three types of households for which a PJ might consider

[19] Econometrica, Inc. and Abt Associates Inc., *Final Report on the Evaluation of the Mark to Market Program, Volume 1,* March 2004.

developing HOME rental housing, particularly if the local housing market is one in which voucher-holders generally are able to use vouchers.

- **Group 1: Large Families.** Large families—those needing units with three or more bedrooms—often have difficulty using vouchers.[20] This may be in part because three bedroom rental units are relatively rare,[21] and in part because owners of single-family houses that have multiple bedrooms are reluctant to rent them to families with children. Discrimination on the basis of race or ethnicity undoubtedly is present in some cases.[22]

The CHAS data make it easy for PJs to determine the severity of the need for assistance among large families, defined in that dataset as households with five or more members. The PHA can also report success rates for families of different sizes attempting to use vouchers locally.

It may be desirable to keep individual developments designed for large families small or to develop them on scattered sites, for example through the rehabilitation of single family structures rather than apartment buildings. This can avoid concentrating large and poor families and also help avoid neighborhood resistance.

HOME currently is used for the development of large units to a very modest extent. Only 15 percent of all units in HOME rental developments have three or more bedrooms.[23]

- **Group 2: Frail Elderly.** The frail elderly—those above a certain age or who have mobility limitations or cognitive impairments--are particularly well served by developments dedicated to affordable housing. Such households may have a more difficult time using vouchers. The elderly in general have lower voucher success rates than other types of households, and success rates for elderly individuals who report disabilities are very low compared with other types of households.[24] In addition, the physical features, supervision, and services that can be associated with project-based subsidized rental developments may be especially beneficial for the frail elderly.[25]

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20 Finkel and Buron, pp. 3-9.

21 Only about 7 percent of rental apartment units have three or more bedrooms. *Quick Facts: Apartment* Stock, National Multi Housing Council website, www.nmhc.org. Vacancy rates for rental units with three or more bedrooms are lower than for other size units in all parts of the country. Nelson, *et al.*, pp. 69-70.

22 Susan J. Popkin and Mary J. Cunningham, *Searching for Rental Housing with Section 8 in the Chicago Region.* Washington, DC: The Urban Institute, 2000, pp. 40-48.

23 Information from the sample of HOME rental developments studied in Herbert, *et al.*

24 Finkel and Buron. pp. 3-8 to 3-10.

25 Khadduri, Burnett, and Rodda, p. 67.

The total elderly population in many jurisdictions is large and is likely to grow rapidly, given the aging of the "baby boom" generation. However, the *younger* elderly may not have a difficult time using vouchers and may prefer to choose housing that is not within an elderly community. The 2000 CHAS data make it possible for PJs to determine the extent of housing needs among the frail elderly—those who are over 75 years of age or who have mobility and self-care limitations. The CHAS tabulations also make it possible to look at the income levels of frail elderly renters and homeowners and at whether they have housing problems (such as crowding or severe cost burden) in order to determine the extent of need and the potential demand for housing that has special features and services and is affordable.

Other important pieces of information are the current occupancy rates of elderly housing developments within the jurisdiction (and neighboring communities) subsidized by either the federal Section 202 program or the public housing program. This experience may suggest weak demand for elderly-occupancy housing if it does not have special features. It may also suggest a growing need for housing with supportive services for an older and frailer elderly population.

- **Group 3: People with Disabilities.** Dedicated housing developments may also be appropriate for people with disabilities. While in general people with disabilities are just as successful using vouchers as other voucher-holders, there is suggestive evidence that those with certain types of disabilities and service needs have a more difficult time finding housing units that meet their needs and have willing owners.[26]

Those with disabilities have a wide range of housing needs and preferences. In recent years people with disabilities and their advocates—supported by the U.S. Supreme Court's Olmstead decision—have focused on the right of those with disabilities to live as independently as possible. This has led to increased targeting of tenant-based vouchers for people with disabilities, both federal vouchers and the otherwise limited use of HOME funds for tenant-based rental assistance. There are, however, some people with disabilities who can benefit from the additional supervision made possible by project-based subsidized housing or who prefer to live in a community of people with similar needs.[27]

Use of HOME funds to support Single Room Occupancy housing and group homes for people with disabilities is currently very limited. Only 5 percent of the units in HOME

[26] Finkel and Buron , pp. 3-10 to 3-11, found that single non-elderly men had a low rate of success. Many of these voucher holders had recently been homeless and may have had disabilities that often are associated with homelessness.

[27] Gretchen Locke, Caryn Nagler, and Ken Lam, *Project Size in Section 811 and Section 202 Assisted Projects for Persons with Disabilities.* Cambridge, MA: Abt Associates Inc., 2004.

rental developments are SRO or group home units.[28] PJs might consider focusing more of their HOME rental development activities on this need, as well as using HOME for tenant-based rental assistance for this group.

The census-based CHAS data do not permit estimates of the need for housing for people with disabilities. However, as local Continuums of Care for the homeless implement Homeless Management Information Systems (HMIS), it may be possible to ask the CoC to provide information on the extent of needs for permanent housing among those with disabilities who have used services for the homeless.

Determining the rent levels appropriate for HOME developments that serve households with special needs may involve several considerations. Appropriate rents depend on the income sources available to people with disabilities within the state, the availability of that income to pay rent, and whether the PHA is willing to establish voucher waiting list preferences for people who would like to live in the HOME-sponsored development.

4. Using HOME for Neighborhood Revitalization

Reviving distressed neighborhoods and stabilizing neighborhoods in danger of becoming distressed are important policy goals for affordable housing. However, it is very difficult to achieve these goals. Neighborhood revitalization initiatives are often overwhelmed by the imbalance between the challenges of neighborhood conditions and the resources available to address them.[29] In addition, there is a growing body of evidence that subsidized rental and homeownership housing have can have either a positive or a negative effect on neighborhoods. Therefore, skepticism about claims that a development will serve a neighborhood revitalization purpose should be built into the PJ's selection process for HOME rental developments, based on the following guidelines:

- **Option 1: Choose Target Neighborhoods That Are Relatively Strong.** Empirical evidence shows that the places where subsidized housing has a positive rather than negative effect on neighborhood quality indicators (such as house prices) usually are neighborhoods that are only in the early stages of decline or that are already showing some signs of improvement.[30]

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[28] Herbert, *et al.*, p. 23.
[29] Jennifer Turnham and Jessica Bonjorni, "Review of Neighborhood Revitalization Initiatives," Neighborhood Reinvestment Corporation, forthcoming 2004.
[30] Khadduri, Burnett, and Rodda, pp. 57-63 and 68-73 summarizes this literature. For example, Stuart Rosenthal, "Old Homes and Poor Neighborhoods: A Dynamic Model of Neighborhood Decline and Renewal," May 2003, demonstrates how economic and demographic forces affect the evolution of urban neighborhoods over decades-long cycles of decline and renewal and concludes that public housing has had the effect of preventing the recovery of distressed neighborhoods.

Proposals to use a HOME development to stabilize or improve such a neighborhood should demonstrate how a new or rehabilitated rental property that has income and rent restrictions will arrest the decline or accelerate the improvement. For example, if the beginnings of decline have led to an influx of families using vouchers because of vacancies and relatively low rents, adding to the affordable rental stock in that neighborhood may be a mistake. If the beginnings of improvement are in a neighborhood that already has a substantial amount of housing dedicated to long-term use by low-income renters, then HOME funds may be better used for physical upgrading of that rental housing rather than adding to it. On the other hand, if the HOME development will replace a vacant or boarded-up property in an otherwise stable neighborhood, or bring a troubled multifamily property under strong management, it may be a good use of the resource.

These are complex judgments that require detailed knowledge of the neighborhood and housing market. Again, the PHA should be able to supply information on patterns of voucher use, and this information can be combined with CHAS data on concentrations of low and extremely-low-income households in particular census tracts, as well as information on the locations of subsidized rental housing developments.[31] In addition, the application for HOME funds should be required to make a case that includes detailed information on the current residents and housing stock of the neighborhood and the way in which the HOME development will affect the housing market.

- **Option 2: Support the Revitalization of a Distressed Neighborhood Only When Plans Are Comprehensive and the HOME Development is Part of a Critical Mass of Resources.**

Redeveloping neighborhoods that have been distressed for a long time is a huge undertaking. It requires a comprehensive strategy that may include enhanced social services, workforce development, improved police protection and schools, reviving commercial or retail activity, removal of regulatory barriers, and improved transportation. When HOME administrators are considering a proposal for a rental development in a distressed neighborhood, they should look for both a comprehensive strategy and a commitment of sufficient resources that the strategy has a reasonable chance of being implemented.

Housing redevelopment alone does not constitute a critical mass of resources. Even the HOPE VI public housing redevelopments, despite the scale of federal funds devoted to them, have not been large enough by themselves to change fundamentally the character of the neighborhoods of which they are a part. Unless they are part of a broader program

[31] The 2000 CHAS data permit analysis at the census tract level.
To supplement the knowledge they already have on the locations of subsidized developments, local housing planners can use two data bases available on the HUDUSER website (www.huduser.org): the Low Income Housing Tax Credit database and the Pictures of Subsidized Households database.

of neighborhood improvement, they may not alleviate sufficiently the crime and social dysfunction that made the public housing development a candidate for HOPE VI funding.[32]

If a distressed neighborhood has older rental developments (which may include older HUD-assisted or LIHTC developments), their physical and financial health must be part of a comprehensive revitalization plan. Otherwise, the addition of a new HOME development or the rehabilitation of only one of several older developments with HOME funds may lead to turnover, vacancies, and physical deterioration of the neighborhood's other rental housing.

Finally, when committing resources to a HOME rental development in a distressed neighborhood, a PJ decision-maker should look for a mixed-income strategy, both within the development and across the neighborhood. For the HOME development itself, this may mean that the HOME subsidy is used only for a portion of the units in the building, with other units offered at market rents. In this type of neighborhood, especially, the HOME rents should be set at the maximum allowable level, relying on vouchers to make them affordable to the lowest income families. In addition, the management of a HOME development in such a neighborhood might include a conscious effort to keep the building from becoming completely occupied by families with vouchers.[33]

From a neighborhood-wide perspective, a mixed-income strategy may require that the redevelopment effort have a homeownership component. In fact, if the PJ's choice is to invest HOME resources in a distressed neighborhood, the HOME administrator might consider rethinking the balance between use of HOME for homeownership and rental activities in order to use HOME to support homebuyer rather than rental developments in the neighborhood.

Even large-scale homeownership redevelopments often do not succeed in improving very distressed neighborhoods beyond the homeownership units themselves.[34] Again, the basic point about this type of neighborhood is that a strategy based on housing alone usually will not work.

It is also important to consider the metropolitan economy as a whole when assessing whether the redevelopment strategy for a particular distressed neighborhood is likely to

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32 Khadduri, Burnett, and Rodda, p. 57. Mary Joel Holin, Larry Buron, Gretchen Locke, and Alvaro Cortes, *Interim Assessment of the HOPE VI Program: Cross-Site Report.* Cambridge, MA: Abt Associates Inc., September 2003, pp. 109-141. Larry Buron, Susan J. Popkin, Diane Levy, Laura E. Harris, and Jill Khadduri, *The HOPE VI Resident Tracking Study.* Cambridge, MA and Washington , DC: Abt Associates Inc., and The Urban Institute, 2002, pp. 84-88.

33 HOME developments may not exclude voucher holders, but this does not preclude occupancy policies and practices intended to maintain a mixed-income character for the development.

34 Khadduri, Burnett, and Rodda, pp. 68-73.

succeed and, therefore, is a good investment of the HOME resource. The total resources needed to change a decades-long pattern of decline will be smaller in areas where job growth and in-migration of workers place upward pressure on the housing market overall and make home-seekers more willing to consider the target neighborhood (including those coming from out-of-town who may not be as affected by the neighborhood's negative reputation).

5. Making HOME Part of a Metropolitan-Wide Housing and Economic Development Strategy

Many local Participating Jurisdictions are parts of larger metropolitan areas. The jurisdiction may be the city that forms the metro area's core, or it may be another central city, an urban county, or a consortium formed to qualify for a formula allocation of HOME funds. Thus, there may be several local PJs making decisions about the use of HOME funds within a metropolitan area. In addition, the state within which the metro area is located controls the allocation of the Low Income Housing Tax Credit to the PJ and to other portions of the metropolitan area. [35]

Ideally, all of the entities responsible for housing subsidy resources in a metropolitan area would agree on a joint approach that serves the overall economic health of the region and the well-being of its low-income households. In particular, housing planners and administrators should work together to counteract the pattern through which some metropolitan areas are becoming segregated by income as well as race. They should help low-income families achieve economic self-sufficiency by locating affordable housing near jobs and transportation nodes.[36]

In reality, the planning and implementation of housing programs are highly fragmented. Even the Consolidated Plan, which encourages regional planning, rarely results in coordination of programs across jurisdictions within the same metropolitan area.[37] Depending on the political configuration of the metropolitan area in which the PJ is located and the nature of the metropolitan housing market, the following approaches for using HOME funds within a metropolitan-wide strategy may be feasible.

- **Option 1: Use the Consolidated Planning Process to Understand Metropolitan-Wide Housing Needs and Market Conditions and to Influence Neighboring PJs.**

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[35] Or sometimes more than one state.

[36] Bruce Katz and Margery Austin Turner, *Rethinking Affordable Housing Strategies: An Action Agenda for Local and Regional Leaders.* Washington, DC: The Brookings Institution Center on Urban and Metropolitan Policy and The Urban Institute, December 2003, p. 5.

[37] Turner, *et al.*, pp. 4-12.

Even without joint planning or formal coordination, PJs can analyze their own jurisdictions' needs and conditions in the context of the metropolitan area, using the CHAS tabulations and other data to illustrate how their problems relate to metropolitan-wide conditions and trends. It may then be possible to influence the strategies chosen by other jurisdictions through data-driven presentations with a metropolitan-wide focus.

- **Option 2: Work with the State's Policy Makers on a Metropolitan-Wide Strategy for the Use of Housing Subsidy Resources.**

Most states not only control the LIHTC allocation, but also have homeownership programs funded by mortgage revenue bonds and homeownership and rental programs funded by the state's allocation of HOME funds. This may provide opportunities for coordinated housing planning between the local PJ and state housing policy makers. For example, a PJ with a low rate of homeownership might attempt to persuade state decision-makers to allocate substantial resources to a concentrated homeownership strategy inside the PJ, supported by the PJ's HOME funds as well. The state could then emphasize the development of affordable rental housing in other portions of the metropolitan area.

Conversely, a PJ with little affordable rental housing might want to use the availability of the LIHTC resource to help offset particularly high costs of development of such housing within the jurisdiction.

- **Option 3: Work with Housing Officials at Other Metro-Area PJs and at the State Level to Overcome Barriers to the Location of Affordable Rental Housing throughout the Metro Area.**

Developing new units of affordable housing is only one way, and a fairly limited way, of alleviating shortages of rental housing. There is substantial evidence that high or increasing rents and house prices are associated with regulations that add to development costs.[38]

Many of the regulations affecting housing are local. Each PJ should examine its own regulatory barriers to the development of affordable housing, including both regulations that could be streamlined to reduce the costs of housing development and zoning and other regulations that discourage the development of rental housing in parts of the jurisdiction. It may even be possible to agree with other jurisdictions in the metropolitan area on coordinated approaches that remove such barriers in a way that does not appear to put particular jurisdictions at a financial disadvantage.

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[38] Khadduri, Burnett, and Rodda, pp. 33-38.

States set the framework within which regulations that affect housing are established and administered. In addition to efforts to reduce their own barriers to affordable housing, PJs should encourage state officials to examine such barriers statewide and to take actions that may encourage the distribution of affordable housing throughout metropolitan areas.

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