

CHAPTER 5

STRENGTHENING AMERICA'S NEIGHBORHOODS

Retooling HUD
for a Catalytic Federal Government:
A Report to Secretary Shaun Donovan

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INTRODUCTION

While the 1990s and the first part of this decade have seen many American cities become stronger, more attractive, and economically vibrant, as the Brookings Institution and others have reported, some significant group of cities did not share in the improvement as robustly. One element of a strong, healthy city is whether it has “neighborhoods of choice” – neighborhoods that are safe, have housing values that generally appreciate, have good schools, and are generally good places to live. Much of the recent neighborhood improvement has occurred in cities through market forces – as more people are committed to staying in their neighborhoods and others are attracted to living in cities, people rehabilitate homes and commit themselves to a place by investing time and energy to improve the neighborhood.

In many cities, a small industry-like partnership that works on the improvement of neighborhoods has developed. Often this partnership consists of neighborhood-based improvement groups (some of which are community development corporations [CDCs], local governments, foundations, private for-profit developers, and lending institutions).

Remarkably, these partnerships and the innovations in neighborhood recovery they have developed have occurred largely without federal support. As a result, these improvements have been of significantly smaller scale and impact than they might otherwise have been if the federal government had been a consequential partner. In today's economic crisis, these partnerships are struggling to maintain themselves, and federal investment of the right kind in local innovation and a federal role in sharing best practices would be a major boost to local efforts to continue to improve neighborhoods. Put simply, HUD needs to get back in the business of neighborhood improvement.

Cities have experimented with a variety of approaches to neighborhood preservation and improvement, among them targeted neighborhood investment, inclusionary zoning, land banking, and tax incentives for development. Because local and metropolitan conditions differ so markedly, a one-size-fits-all solution to the challenges of neighborhood preservation and improvement is impossible. Instead, federal support and technical assistance to enable communities to employ the approaches best suited to their conditions and to ensure that this assistance is accompanied by accountability for results will have the greatest impact and ensure that federal monies are well-spent. This approach is also consistent with the Obama campaign's emphasis on innovation and bottoms-up solutions.

This task force recommends that the Secretary seek to significantly increase the funding for the Community Development Block Grant Program (CDBG) and revise the program's regulations so that local governments can use the funds more flexibly for neighborhood improvement, based on a community's specific needs. In addition, to promote innovation and experimentation in American cities, we recommend that the Secretary administer a special CDBG allocation of \$1 billion annually to promote innovation aimed at improving neighborhoods and, in doing so, strengthening the competitiveness of American cities.

BACKGROUND STATEMENT

The past two decades have seen growing disparities among American cities and, within all cities, among their neighborhoods. Some cities, such as New York City, Chicago, and Portland, have prospered and have witnessed significant increases in population and investment. Other cities like Cleveland, Pittsburgh, St. Louis, and Kansas City have continued to lose people and jobs. In a third group are cities such as Philadelphia and Baltimore which have seen limited revival with large parts of those cities remaining in distress. Even in the most distressed cities, however, some neighborhoods have shown renewed vitality. Any involvement in neighborhood improvement by HUD must take into account this diversity, recognize that there is a continuum of neighborhood typologies and markets, and support strategies suited to various neighborhood conditions. HUD can best accomplish the goal of revitalized neighborhoods by incentivizing and supporting carefully designed local efforts and facilitating the dissemination of best practices among local governments and stakeholders.

Over the past decade, the distinction between “strong-market” and “weak-market” U.S. cities has become clearer to policy makers and those who invest in cities. Indeed, it is clear that cities fall along a continuum from weakness to strength. Some cities, Philadelphia for example, have characteristics of both strong- and weak-market cities, and within all cities there are stronger and weaker areas. While this distinction may be less useful in the economically challenging times ahead, it is critical to recognize the diversity of market conditions in designing new federal policy and program approaches to neighborhoods.

After a period during which most American center cities were in decline due to deindustrialization and seen as a central “problem” in American political and policy debates, over the past 10 to 15 years some cities have emerged very strongly, with the following characteristics:

1. Growing service and information economies, with concentrations in finance, insurance, real estate, new media, technology, law, communications;
2. Immigration (either growth through immigration, as in NYC, or at least reduced population decline);
3. Gentrification (a mixed blessing for neighborhoods, as it sometimes leads to displacement of lower-income residents); and
4. Rising real estate values, affecting both rents and sales prices, well beyond what was projected in the 1980s.

These changes were very good ones for the cities where they occurred, bringing new economic activity, a stronger tax base, entrepreneurship and innovation, and significant real estate investment. At the same time, when the improvement was strong enough, for example, in San Francisco, Seattle, and Boston, these cities had to cope with some of the negative effects of rising prices and hot real estate markets. The issue in these places is not how to stimulate recovery – it’s happening – but rather how to use new prosperity to improve the lives and well-being of lower income households.

Essentially these problems/opportunities fall into two categories. Research by Manuel Pastor and others indicates that cities that do best economically are those cities where the gap between the rich and poor is narrow because low-income people are able to share in the city’s prosperity and move into middle-income status. In these strong-market places the most suitable public policy for neighborhoods appears to be to ameliorate the effects of market forces. This requires protecting the interests of low-income people through efforts to preserve and grow affordable housing so that lower-income residents are not forced to leave their neighborhoods or the city because of rising prices.

Many other cities continue to struggle with decline and deterioration. These cities may have seen some downtown revival and the gentrification of a few neighborhoods with distinctive locational or architectural assets. But regional economic constraints, coupled with limited resources and continued suburban sprawl, have resulted in widespread disinvestment in these places, a problem that has become even worse as the foreclosure crisis destabilizes once-vital neighborhoods. These cities’ “weak-market” neighborhoods provide much of the housing for the region’s working-class and struggling middle-class households, including large numbers of immigrants and people of color. Furthermore, in the current crisis, other more stable neighborhoods, many of which appeared to improve during recent years, are at risk of falling into a similar state. Foreclosures have had a devastating impact on many of these neighborhoods, which saw many purchases in recent years by striving home buyers seeking to realize the American dream. As both existing home owners and prospective buyers lose confidence in these neighborhoods and abandoned properties crop up on block after block, these neighborhoods are already becoming destabilized and risk collapse. A separate task force has reported on these foreclosure-impacted neighborhoods.

Although local partnerships have worked valiantly to revitalize or preserve these neighborhoods, cities and states lack the resources to address the threats they now face. The only likely alternative to an expanded federal role to address weak-market neighborhoods is the status quo.

A third category consists of distressed urban neighborhoods that contain the most problematic physical, economic, and social conditions. These neighborhoods have a deteriorated physical infrastructure, with large numbers of residential and industrial properties vacant and abandoned, as well as a visibly compromised public realm. They offer little economic activity or opportunity, with large numbers of their residents holding only low-wage employment or outside the labor force, as well as elevated levels of health problems and crime. Despite past federal efforts and continued work at the local level, these areas present deeply rooted problems that can only be tackled by very expensive, large-scale interventions.

The federal government has tried to improve urban neighborhoods over the years but has never had a coherent policy toward neighborhood growth, stabilization, or revitalization. Model Cities and Community Action Programs are too old to be relevant models for today's neighborhoods, while programs such as the Empowerment Zone and Homeownership Zone made brief appearances only to quickly disappear. The longest and most important federal program that can be used to address neighborhood improvement is the Community Development Block Grant program. However, this program has increasingly become little more than a means of spreading a diminishing resource thinly across an ever-increasing number of recipients around each city and is, furthermore, constrained as a neighborhood improvement tool by its emphasis on low- and moderate-income benefits and affordable housing. While the new Neighborhood Stabilization Program represents a well-intentioned effort to help localities grapple with the destabilizing effects of massive foreclosures, it is too new to assess its ongoing value as a neighborhood-improvement tool.

What is needed to strengthen neighborhoods in a range of market conditions is strong partnership and investment from the federal government, with HUD as the leader of this effort. HUD should be deeply involved in assisting local efforts to improve neighborhoods through the dissemination of best practices and, most importantly, the provision of significant financial resources to improve neighborhoods based on the success that is occurring in many cities. Of course, healthy neighborhoods require good schools, quality health care, and other social services, as President Obama indicated by his support of Promise Neighborhoods during the campaign. For this reason, other federal agencies, coordinated through the White House Office of Urban Policy, must also play an increased role in policy development and implementation in some locations.

STRATEGY SUMMARY

To promote strong neighborhoods in American cities across the country, we recommend HUD direct resources and expertise, through a more flexibly administered CDBG and other sources, to cities to support neighborhood improvement. These resources must be tailored to fit local neighborhood conditions. The strategies need to be different in “strong-market” neighborhoods and “weak-market” neighborhoods, but both can be assisted with targeted support that rewards innovation and allows cities the flexibility necessary to deal with their individual problems while ensuring that cities are accountable for results. To accomplish this goal, we recommend:

- Reforming the CDBG program to allow funding for neighborhood improvement based on market conditions in the neighborhoods. The use of CDBG funds should be based on the premise that it is equally valid public policy to attract middle-income people to weak neighborhoods as it is to protect the interests of low-income people via more affordable housing in strong-market neighborhoods;
- Providing research and technical assistance to promote these best practices;
- Creating a special fund (we recommend a \$1 billion annual appropriation) for use by the HUD Secretary to spur local innovation.

Addendum 5.1 to this report offers some thoughts about recent strategies to ameliorate conditions in distressed areas that the Secretary should consider.

UNDERLYING PRINCIPLES FOR STRENGTHENING AMERICA'S NEIGHBORHOODS

If the federal government is to play a useful role in preserving and stabilizing neighborhoods in weak-market communities as well as in promoting equitable development in strong markets, it should do so on the basis of a coherent strategy based on clear principles. HUD should require local governments to use these principles in crafting their development plans, and HUD should provide funds through competitive grants to cities that pursue best practices. We suggest the following principles as the framework for a federal neighborhoods strategy:

Principle 1: Develop a range of strategies that reflect the wide variation in neighborhood market conditions.

Different strategies are needed for different neighborhood market conditions. Although those conditions fall into innumerable points along a continuum, they also fall into broad categories: (1) healthy neighborhoods that are at risk of destabilization; (2) those areas that have been destabilized while retaining the physical, economic and social fabric that can lead to market recovery; and (3) those areas where destabilization and deterioration have progressed to such an extent that more transformative strategies – or long-term land banking – will be necessary before market vitality can be restored. Each category requires a different improvement strategy and HUD should equip cities to carefully investigate and fully understand their neighborhood conditions before they decide how to spend their scarce resources. In recognition of this diversity, the federal government will need to provide flexible funding and foster innovation to deal with these diverse conditions.

Principle 2: Recognize the central role of housing markets in building vital, healthy neighborhoods, and ground strategies firmly in market building and market stabilization.

Building and maintaining strong housing markets is critical to neighborhood stabilization. Market-based approaches are rooted in the assumption that functioning private markets are critical to ensuring that weak-market cities are able to create more neighborhoods of choice. While development of affordable housing in these cities continues to be an important activity to house people who cannot afford housing in the private market, neighborhood strengthening strategies need to use public resources to establish conditions that will create or increase private investment. Typically, approaches designed to strengthen markets build from strength or assets, assuming that these neighborhood anchors will help to stabilize and serve as an incentive for private development. These neighborhood market-building and recovery approaches need to have as their goal the retention and attraction of households with a mix of incomes, so that the measure of success in use of federal funds is not benefit to low- and moderate-income people, but improvements in neighborhood market conditions.

Principle 3: Promote equitable development in areas of market strength.

Equitable development connects the quest for full economic and racial participation to local, metropolitan, and regional planning and development. It is grounded in four axioms: (1) the integration of people and place strategies so that as places improve the people in the places share in the benefits of the improvements; (2) reduction of local and regional disparities; (3) promotion of "double bottom line" investments; and (4) inclusion of meaningful community voice, participation, and leadership. While the core public-policy challenge in weak-market places is to encourage private investment that would otherwise not occur, the core policy challenge of equitable development in strong-market cities is to insure that market-led (though often publicly subsidized) development genuinely shares its benefits across a broad spectrum. This principle is entirely consistent with recent research that indicates that cities with narrow ranges between haves and have-nots do better economically than cities with wide gaps.

Principle 4: Support the preservation and development of middle-income neighborhoods.

For much of its history, HUD has been an agency responsible for intervening in poor urban neighborhoods. However, cities and inner-ring suburbs cannot survive without strong and vibrant middle-class communities. These communities provide the economic vitality and social capital necessary to bring people out of poverty, and they contribute the resources cities need to provide services. HUD should explicitly recognize the importance of middle-income neighborhoods to urban vitality and should support local efforts to preserve and expand such areas.

Principle 5: Target resources to maximize potential stabilization and revitalization.

The incremental market demand that can be drawn into the neighborhoods of cities in regions with little or no overall growth – even with the best public sector strategies – is unlikely to be enough to permit the simultaneous revitalization or stabilization of more than a modest share of the city's total neighborhoods. While targeting resources

to a limited number of neighborhoods at any point is politically difficult, failure to do so all but guarantees that resources will be thrown away without lasting results. Revitalization policies should build on strengths, rather than necessarily attempting to tackle the hardest, most expensive problems first, and cities should be encouraged to make such choices. Much has been learned over the past ten years about matching public interventions with neighborhood conditions, through work by The Reinvestment Fund and the Urban Institute's Neighborhood Indicators Project. HUD could play a very important role in requiring targeting of HUD funds for neighborhood improvement and providing technical assistance to cities in making the best targeting decisions.

Principle 6: Use leverage to maximize public sector resources.

Revitalization strategies can only succeed and achieve scale when they are able to attract private resources. In the present economic environment of bank consolidation and lack of credit, every public and philanthropic dollar must be used effectively through leverage of private dollars. Successful initiatives like the Community Reinvestment Act – which drives private capital to areas housing low and moderate income people, Low Income Housing Tax Credits and New Markets Tax Credits as well as traditional lending to revitalization development – must be preserved and expanded to leverage public resources. The federal government, as a result of its much expanded role as regulator, lender, and investor in financial institutions, has a very strong role to play in directing the engagement of financial institutions in revitalization. HUD should seek out partnerships with Treasury, Federal Reserve and Federal Home Loan Banks, and other federal agencies that are regulating financial institutions and providing them with capital to encourage, if not require, revitalization financing strategies and commitments. HUD should also provide training to local officials on how to leverage public, private, and philanthropic dollars; this effort could be modeled after the successful HUD training program in the 1980s known as the Community Rehabilitation Training Center, which taught many local officials financial leveraging techniques.

Principle 7: Build human capital and economic opportunity for neighborhood residents as well as improving place-based physical conditions.

The needs of people cannot be separated from the needs of places. If lower-income residents of distressed communities are to benefit from revitalization, strategies must be put in place to build their human capital through education and workforce development, including economic development strategies aimed at creating job opportunities – or improving their access to job opportunities elsewhere. Strategies that focus on a physical development, bricks-and-mortar approach to neighborhood revitalization dominate efforts to deal with the problems of urban deterioration and decay. There is increased recognition that although a decent physical environment is important, it is not enough. Many low income families are in need of social, health, and employment services as well. Such services are critical if families are to be members of a community with the commitment and capacity to stabilize and maintain their neighborhood to ensure a quality environment in which to live and raise a family. There is growing recognition that job creation, employment training, family support, child care, youth programs, education reform, recreation, housing, crime prevention and control, and primary health care are all critical elements of community revitalization that are best addressed in an integrated manner. HUD should work closely with other federal agencies to encourage coordination of people-oriented programs in selected places.

Principle 8: Preserve or create economic diversity in revitalized and stabilized neighborhoods.

The potential for conflict between market-based revitalization and the interests of the existing lower-income residents is an ever-present reality and must be recognized. Any neighborhood strategy must explicitly take into account the interests of lower-income residents and put in place measures that enable them to benefit from revitalization and that ensure that revitalized neighborhoods provide for a diverse economic mix. HUD should play an active role in promoting community land trusts and forms of shared appreciation mortgages that result in longer-term affordability of housing in neighborhoods that are experiencing upward shifts in housing prices and rents.

Principle 9: Implement multifaceted, data-driven strategies based on neighborhood plans.

Neighborhoods are more than bricks and mortar, and stable, healthy neighborhoods are more than the sum of their sound housing units. Neighborhood stabilization strategies need to be grounded in an overall plan or strategy that focuses on the entire neighborhood, leveraging a variety of resources to address critical issues such as open space, schools (both the physical facilities and the quality of education), Main Streets, and public transportation access to employment centers. In the end, those facilities and services will have as great an impact on market strength as housing quality.

Principle 10: Create partnerships based on reciprocal obligations and responsibilities between federal government, local government, and key private and non-profit stakeholders.

If neighborhood revitalization in America's older industrial cities is to succeed, it is not enough that local governments take the federal government's money and use it in ways that meet the legal requirements of the program. Local governments must make tough, often politically difficult choices to target resources and invest in the future as well as build the local capacity to execute the complex strategies that neighborhood change demands. Future federal programs must demand that local governments make those choices, while providing local governments with tangible incentives to do so. In addition, it is important to recognize that many laws and policies that shape neighborhood development, such as zoning and tax rules, are made at the state level. States must be full partners in the effort to direct resources to support local innovation and to remove the barriers that make such innovation difficult.

FEDERAL POLICY INITIATIVES

The following proposed federal initiatives are intended to serve as the building blocks for a HUD strategy to partner with local governments to assist in revitalizing and stabilizing neighborhoods in the three categories of market conditions described earlier. In order to play its appropriate role as a full partner in neighborhood development, HUD should direct its resources, through expanded and targeted CDBG allocations, to incentivize innovation at the local level.

A. HUD should make a long-term commitment to neighborhood stabilization

Rebuilding neighborhood markets is a long-term venture. Distressed neighborhoods in weak-market cities are the product of decades of disinvestment. The devastation that defaults, foreclosures, and abandonment have wreaked in America's struggling neighborhoods will take many years to reverse and will require resources far beyond the means of state and local governments or local philanthropic institutions. An ongoing, rather than "one-shot" approach to neighborhood stabilization is needed at the federal level, supported by an annual appropriation. Federal programs, CDBG and others, should be based on the principles outlined above and targeted toward neighborhoods that are destabilized – or at imminent risk – but which also have the assets to make market recovery realistic.

CDBG and other federal grants, while principally funding "bricks and mortar," should provide the flexibility needed by local actors to use funds for other place-based purposes, including foreclosure prevention, targeted code enforcement and other key elements in a neighborhood strategy – including parks, schools, and transportation – designed to maximize leveraging of state and local, as well as private sector, resources. The HUD Secretary should direct the Assistant Secretary for Community Planning and Development and other staff to review all rules and regulations to ensure that they are in line with the principles of neighborhood revitalization, and should propose changes to the statute where necessary. For example, HUD should allow recipients broader latitude in the use of funds to stabilize neighborhoods that are in earlier stages of decline. Since CDBG funds are generally limited to providing assistance to households whose incomes are below 80% of median, it is often difficult to use funds in lower middle-class neighborhoods. Relaxing this income requirement in circumstances when the municipality can show a positive impact in strengthening neighborhoods would provide much needed flexibility, especially in older cities.

Recommendation 1: Support neighborhood homeownership through tax incentives.

Neighborhood revitalization and market building are inextricably linked. Tools designed to motivate prospective homebuyers to purchase homes in target areas are a critical complement to the implementation of an effective neighborhood strategy. Areas in need of revival, particularly in weak-market environments, are likely to be those in which market demand has declined along with consumer confidence in the future of the area. In such areas, prospective buyers have little expectation of future appreciation and fear of continued depreciation. In many locations, house prices have often fallen below replacement-cost levels, and the cost to acquire a property in need of significant work and restore it for owner-occupancy exceeds the resulting market value of the property. In other words, a prospective buyer's economic calculus works against buying a house in the area and doubly against buying a house in need of rehabilitation. HUD programs should enable local governments to craft programs that will produce economically integrated and sustainable communities and should incentivize, through competitive grants, local efforts to build on neighborhood strengths and attract new residents. In addition to these steps, the federal government

could offer a targeted, income tax credit for individuals purchasing and rehabilitating homes for owner-occupancy in target neighborhood stabilization and revitalization efforts. This would encourage acquisition and rehabilitation in these areas.

Recommendation 2: Fund transformative investment: a “HOPE VI” for neighborhoods.

For the neighborhoods we have identified as those in category three – those that have been devastated by decades of disinvestment and abandonment – incremental strategies will not work. On the other hand, the resources of vacant and underutilized land – often located in proximity to valuable locational assets, such as transit stations, major public open space, or institutional anchors – create the opportunity for large-scale developments that can have a transformative effect on the area, drawing new market demand into the city. Such developments, however, require large amounts of initial capital, and – because they are based on drawing new rather than existing market demand – are difficult to finance through conventional means. The federal government could play a strong and unique role in fostering this type of transformative investment, by providing a combination of grant or subordinated loan funds, loan guarantees, and tax incentives to local governments to support developments of scale consequential enough to create market demand in these areas, much as the best of the HOPE VI projects have done in public housing settings. Projects would have to demonstrate that the market potential is realistic and local governments would have to make a strong commitment – financial and political – to the success of each of these transformative projects.

Recommendation 3: Support land banking and green infrastructure.

Where market demand is inadequate to absorb the available housing in a city, as it is in some of the cities in the Midwestern Rustbelt, the market for housing in the most distressed neighborhoods has effectively disappeared. Even with livable houses offered for \$20,000 or less, properties find few takers and more and more houses are abandoned. In these areas – sometimes a third the land area of the city – the most rational strategy is to bank the land for the long-term, releasing it selectively for redevelopment or revitalization, while fostering a variety of both interim and permanent green uses – including gardens, forests and urban agriculture – that help build a more sustainable city. As the experience of the Genesee County Land Bank in Flint, Michigan has shown, such programs can be largely self-sustaining, helping to stabilize the city and improve its quality of life, as well as create development opportunities for the future.

In areas where market conditions make it a rational strategy, the federal government should actively support such efforts through a combination of start-up financial and technical support for qualified land-bank entities, funding for demolition, tax incentives to encourage donation to land-bank entities, and financial support for urban agriculture projects tied to creation of employment opportunities and food security in their communities. Support for land bank entities should not be without conditions. It would be unwise for the federal government to provide support to local jurisdictions that fail to take action to maximize their ability to both assemble and use their land appropriately. To be eligible for federal assistance, local jurisdictions should be required to create viable land-bank entities, establish tax foreclosure procedures designed to maximize public benefit and land assembly, and adopt land stewardship and disposition practices consistent with the creation of a green infrastructure in their community.

Recommendation 4: Build local capacity.

Localities vary widely with respect to the critical organizational and human capital resources needed to both plan and execute complex neighborhood revitalization and stabilization activities. There is a wide range of expertise – from weak to strong – in city housing and community development departments, in neighborhood based groups and CDCs as well as in the foundation and lending sectors in cities. Some cities have strong, capable, real estate developers and owners, while others are contending with less scrupulous absentee landlords. However, few city governments have staff with the skills to analyze market conditions and use that analysis to frame targeted neighborhood-scale market recovery strategies. Among the many skill areas that may be relevant to carrying out such strategies are the ability to analyze neighborhood market conditions, develop effective land banks, establish targeted and systematic code enforcement and nuisance abatement programs, and create and maintain property information systems.

HUD should work directly with and through national community development intermediaries to strengthen the Section 4 program to provide a sustained long-term, program of capacity building through training and technical assistance to local governments and CDCs. In addition to funding training and technical assistance, small grants should continue to be provided to address specific capacity needs. These could include multi-year grants for operating support to a CDC or to enable a city to add critically needed personnel; they might also assist a city to set up a property information system or upgrade the technology used by its code enforcement agency.

Recommendation 5: Reform regulations and decentralize some decision making.

The most successful efforts to support neighborhood development are locally designed and driven efforts that are collaborations between public and private institutions. Often these collaborations are hindered by federal regulations narrowly tailored to specific programs. One way that HUD can support existing programs and efforts – in a short time frame and without increasing resources – is to increase the capacity in regional offices and to empower regional offices to make more decisions regarding the appropriate use of federal funds.

In addition, because most decisions are made in Washington, it is challenging at best to have those decisions take into consideration differences in city and regional markets. For example, for a regional office to authorize selling a single HUD-owned property, it must be approved in headquarters. Headquarters makes the final decisions to demolish even one unit of public housing. Empowerment of regional offices would enable HUD to better align resources and decisions with locally driven needs and programs and to respond more rapidly to changing circumstances. The opportunity exists to review the extent to which existing and newer efforts respond to local issues.

Recommendation 6: Treat urban revitalization as a greening strategy.

The HUD neighborhood strategy proposed here should be viewed as part of the federal government’s larger strategy to foster energy efficiency and combat climate change. A strategy that focuses on building market demand in areas with compact development patterns and already served by public infrastructure is inherently “greener” than alternative development strategies. The federal neighborhood strategy should incorporate a series of explicit features to maximize the environmental benefits of the strategy, including linking neighborhood revitalization to transit improvements to maximize use of public transportation and reduce auto dependency in revitalized areas; establishing standards for revitalization activities that promote walkable development patterns in revitalized areas; encouraging energy-efficient development, including retrofitting existing buildings for greater energy-efficiency and building the green infrastructure – gardens, parks, forests, urban agriculture – in each neighborhood, particularly where land availability exceeds market demand. HUD should incentivize such activities by providing additional resources to cities that undertake such efforts.

Recommendation 7: Support affordable housing through inclusionary zoning.

Several hundred cities around the country have adopted “inclusionary housing” programs, which require and/or encourage developers to make a percentage of housing units in new residential developments available to low- and moderate-income households or to provide funding to support the development of affordable housing elsewhere in the community. In return, developers receive non-monetary compensation – in the form of density bonuses, zoning variances, and/or expedited permits – that reduce construction costs. By linking the production of affordable housing to private-market development, inclusionary housing expands the supply of affordable housing while dispersing affordable units throughout a city or county to broaden opportunity and foster mixed-income communities.

Inclusionary housing approaches have been successful in cities such as Boston and San Francisco. Although zoning decisions are made at the local level, HUD should encourage inclusionary housing by promoting best practices and disseminating information to states and municipalities. While local flexibility is one of the strengths of inclusionary housing, having hundreds of different programs can be confusing for developers. HUD should assist in the development of national standards for such programs as well as provide active guidance on which program approaches are most effective in different housing market conditions. In addition, HUD should issue guidance on how inclusionary housing fits into a Consolidated Plan and regional plans, as proposed by another task force, and should encourage municipalities and regions to adopt inclusionary housing approaches. HUD should provide planning grants for inclusionary housing and similar programs. In some metropolitan areas, inclusionary housing is a controversial measure. Federal support could provide an incentive for localities to experiment with the idea.

Recommendation 8: Support inclusionary tax incentives.

Some municipalities use tax incentives to encourage new development when the market is weak. For example, Philadelphia offers a 10-year exemption for residential new construction, in order to encourage developers to build. In strong-market cities, such incentives are not necessary to encourage new development. These cities can instead offer a tax abatement or incentive for those developments that include affordable housing. Such a program can be combined with inclusionary zoning as one of the incentives a developer receives. HUD should support such efforts through technical assistance and grants to localities undertaking such efforts.

Recommendation 9: Support mixed-income development.

Many federal affordable housing programs were designed with a very specific income group in mind, and the easiest way for states and municipalities to administer them, or for developers to use them, is to build developments that are all for people of identical incomes. As a result, subsidized affordable housing production often has the unfortunate and unintended consequence of further economic segregation. HUD should support mixed-income developments by expressing a preference for such developments in CDBG, Home Investment Partnerships (HOME), and other program regulations and should also reform regulations to make it easier for local governments and developers to mix different sources of funds. Although perhaps outside of its formal legal authority, HUD should encourage the Treasury Department to restructure the Low Income Housing Tax Credit (LIHTC) program to encourage use of that program to create mixed-income communities.

Recommendation 10: Play a central role in inter-agency strategies for distressed neighborhoods.

HUD has a long history of participation in efforts, such as Model Cities and Empowerment Zones, designed to revitalize distressed neighborhoods. However, the results of such efforts have been mixed at best. Comprehensive strategies for distressed neighborhoods require the cooperation of numerous federal agencies, including the Department of Health and Human Services (HHS), the Department of Education, and the Department of Treasury. HUD, as the agency responsible for urban development, should play a critical role in any such initiatives undertaken by the administration. However, HUD should retain its primary focus in promoting housing and urban development. This principle should be applied to President Obama's commitment to Promise Neighborhoods, which has succeeded in its prototypes to improve opportunities for poor children in Harlem. HUD should play a supportive role to the White House Office on Urban Policy as this program is implemented.

A CLOSING COMMENT

HUD's understandable emphasis on stimulating the creation of public and privately owned affordable housing has interfered with an equally important mission of working in partnership with mayors, county executives and others to improve America's neighborhoods. Building HUD's capacity to be a welcome, flexible partner with those toiling at the local level to strengthen neighborhoods is needed even more now than in the past, given the startling effect the recession and foreclosure crisis is having on many neighborhoods in America. It will take rebuilding and a greater breadth in orientation by HUD, but the approach is entirely consistent with HUD's mission.

ADDENDUM 5.1

TARGETING CONCENTRATED INVESTMENTS FOR NEIGHBORHOOD REVITALIZATION: A Summary of Key Lessons Learned from the Research Literature

By George Galster

Targeting Can Work

A neighborhood revitalization strategy involving the sustained targeting of substantial public and/or non-profit investments *can* succeed in turning around even highly disinvested places. The most acclaimed (and thoroughly vetted; see Galster et al., 2006) example is Richmond, VA's "Neighborhoods in Bloom" (NiB) program, which was begun in 1998. The NiB program was targeted geographically for concentrated, sustained, highly visible interventions. Three factors seem to be responsible for its success.

First, there was a coincidence of committed leadership, competent City staff, and an effective planning process. From its inception, the Neighborhoods in Bloom program enjoyed strong leadership from the City manager and several City councilors. Within the community at-large, Local Initiatives Support Corporation (LISC) and several community development corporations (CDCs) actively supported and helped to organize the initiative. The City staff charged with organizing and implementing the NiB program has been widely regarded as competent and helpful. The City administration and Community Development Department, as well as LISC and its affiliated CDCs, actively solicited the input of affected parties to develop consensus about the need for targeting and about the neighborhoods that should be included. They used a data-driven method of prioritizing the neighborhoods so that all could understand and attest to its objectivity. As a result, City councilors and the larger public were able to support the initiative overwhelmingly.

Second, the City of Richmond created a critical mass of multiple resources and applied them strategically: \$21.33 million was invested in a concentrated fashion over five years in target areas comprising only 300 blocks. The funds and services provided by the City – Community Development Block Grant (CDBG), Home Investment Partnerships (HOME), capital improvement funds, focused code enforcement, tax-delinquent sales and property disposition priority, accelerated historic preservation review, and housing counseling – as well as funds and services provided by LISC, represented a large scale, comprehensive package of revitalization initiatives. Moreover, Richmond committed resources with substantial certainty over a multi-year period. But, even more critically, these initiatives were spatially focused so they reached threshold concentrations that stimulated private market activity and brought about perceptible changes in the target neighborhoods.

Third, Richmond had a well-functioning community development industry, anchored by the Richmond Community Development Alliance (RCDA), organized by Richmond LISC in the 1990s. The RCDA sought to ensure that CDCs expanded capacity, cooperated with each other, and spoke to the City in a coherent voice. Although Richmond's CDCs did not form until the early 1990s, by the onset of NiB they had developed good working relationships with the City, lenders, appraisers, and other private-sector partners. Thus, most of them were capable of rapidly increasing housing production levels when NiB's resources became available.

Neighborhood Reinvestment Thresholds

Targeting is crucial because the public dollars must push the neighborhood above its reinvestment threshold if private monies are to be leveraged. Several recent studies suggest that there are two spatial scales where reinvestment thresholds occur, one at the census tract level and another at the block level. Regarding the larger scale, Galster et al. (2004b) conclude that CDBG expenditures do not have a noticeable relationship with altered neighborhood trajectories unless they exceed roughly \$261,000 per census tract cumulated over three years (\$87,000 annual average). NiB findings are consistent at the census tract scale. Regarding the smaller scale, NiB observed much larger positive

impacts when a block received at least \$21 thousand site-specific and roughly \$9 thousand infrastructure investment from public and nonprofit sources, on average.

Even though the Richmond evidence suggests a relatively low block-level threshold where leveraging of added private investments becomes more significant, this should not be taken out of context. It is likely that the property investment psychology across the entire target area was under-girded by: (1) a highly visible, participatory planning process culminating in the designation of a target area (and subsequent significant site-specific investment in at least some of it) and (2) NiB-related infrastructure improvements and service enhancements across the entire NiB area. This is supportive of the notion that “building neighborhood confidence” is an important outcome that can be triggered by the symbolic spinoffs from well-publicized public investments in an area.