

HOMEOWNERSHIP ZONE INTERIM EVALUATION

Lessons and Guidelines

This section discusses the lessons that have been learned from the Homeownership Zone (HOZ) demonstration program so far. At the time of this evaluation in 2004 and early 2005, three HOZ sites (Baltimore, Indianapolis, and New York City) were near completion, five sites (Cleveland, Louisville, Philadelphia, Sacramento, and Trenton) were making steady progress, and three sites (Buffalo, Flint, and San Juan) appeared stalled. The experiences of these HOZ cities can benefit other communities that hope to use mixed-income homeownership housing to transform their distressed neighborhoods. Appendix E provides a list of contacts that can provide additional guidance and technical advice.

The Plan

Transforming a deteriorated area by developing a new mixed-income homeownership community is not a simple task. Careful planning is required. The master plan must be thorough, considered, and community-focused. All participants must be willing to spend many hours discussing and reviewing options. This will result in a plan that provides a detailed blueprint for future development. Attention to street patterns and streetscapes is important. Establishing uniform design guidelines is also important. This will contribute to the feeling of a single neighborhood and improve the area's marketability. A long-term implementation horizon is a necessity. City administrators must resist being overly optimistic about this timeframe. Everything will take longer and cost more than the original estimates. A phased approach is essential. Patience, commitment, flexibility, and perseverance are required to see the plan through to completion. Everyone must be prepared to make adjustments as conditions change.

Following are some additional observations:

- A substantial amount of time was required to put together a good plan before construction began. Each of the most successful cities had a master vision and strategy that guided HOZ development from the start. These cities resisted pressure to begin building before all the plan details were in place.
- The most successful cities involved the community residents and the private sector early in the planning process.
- Community residents contributed special knowledge about what works for the community and what inherent local needs should be addressed by the HOZ plan. For example, in one city, community input made it clear that public parks pose dangers as centers for drug activity. As a result, neighborhood parks were not included in the design.
- Most cities took 2 to 3 years after HOZ approval to begin constructing their first houses.
- The most successful cities took nearly 8 years to complete their HOZ projects.
- The scope of neighborhood change was broader when the HOZ project was undertaken in conjunction with other development that preceded the HOZ project or that was occurring concurrently. For example, two cities combined their HOZ projects with HOPE VI projects.
- Transforming a deteriorated neighborhood was expensive and unpredictable, even with a well-developed plan. Infrastructure, environmental, and other challenges arose when least expected.

Activity was delayed when contingencies for such unexpected events were not built into the project budget and schedule from the start.

- The most successful cities effectively used phasing to guide the development process. Several cities undertook geographic phasing by designating subtarget areas or villages, each with separate development strategies, financing, and timelines that were guided by the master plan.
- The start of the Round One HOZ projects was delayed by the Section 108 Loan Guarantee approval requirements. In several cases, these delays were significant because the cities had not adequately identified the sources for loan collateral before the start of their projects.

The HOZ Site

The formal designation of the HOZ boundaries and public recognition of the HOZ site as a special target area are critical to success. Not all sites, however, are equally suitable for the HOZ approach. The location, configuration, and existing conditions of the HOZ site play a significant role in determining success. The availability of vacant or publicly owned land and the site's comparative market advantage are the two most important site selection criteria. City administrators must resist pressure to designate HOZ sites that are too large or too far from other beneficial changes taking place within the city. The proposed improvements must visually transform the entire site. It is preferable to choose a smaller, compact site to start and expand the area as spillover effects take hold. Sites that require relocation will take longer to develop than originally anticipated. Responsible relocation strategies must be developed as soon as the site is selected.

Following are some additional observations:

- The most successful HOZ sites were located near areas of the city that were growing and offered employment options and opportunities.
- The most successful HOZ sites were in cities that had growing populations and resurging economies.
- Tight, compact, definable sites were generally easier to design, develop, and market than were multiple sites that were scattered throughout larger target neighborhoods. The compact sites generally progressed more quickly than the scattered sites did.
- When the city did not treat all vacant and substandard properties in the HOZ site, resulting in a "gap-toothed" look, the developments were less successful than those developments where the city treated all substandard properties.
- Those cities that selected HOZ sites where the city had substantial site control progressed the quickest. The use of publicly owned and vacant land minimized land acquisition cost and development timeframes. These cities were able to begin construction quickly and had control over the type of development that occurred.
- In one city, the success of the initial HOZ development led to escalating costs and difficulty in purchasing additional sites from private owners that no longer wished to sell their properties.
- In one city, an on-site relocation workload substantially delayed progress.
- In one city whose compact site had been largely redeveloped, the private sector was investing in adjacent areas.

Leadership and Administration

Neighborhood transformation requires political commitment. The chief executive and the local elected representatives must support the HOZ project from the initial planning stage through to the sale of the last home. Cities that do not have the political will for this type of long-term undertaking should not implement HOZ projects. The chief executive must develop the vision and set the tone for success. She or he must make clear that HOZ implementation is a priority for all city agencies. Responsibility for the HOZ project's implementation must be clearly assigned. The chief executive must select a project coordinator or administrator, assemble a strong project management team, and establish an effective means of coordinating the numerous partners. HOZ staff must establish administrative processes to track the project's progress, resolve complex issues, and document outcomes before the project gets under way. Baseline data should also be collected before the project starts. This data is helpful for future project evaluation. Periodic status reports must be provided to all key staff and project partners. The system for documenting project activities and progress must also establish an audit trail for funding partners.

Following are some additional observations:

- The most successful HOZ sites were located in cities where the HOZ projects were key components of the mayor's development strategy.
- The least successful HOZ sites were located in cities where the projects lost political support, lacked the attention of the agency administrator, or were treated as "just another project".
- HOZ sites in cities that had experience in large-scale redevelopment generally fared better than those that did not.
- The most successful HOZ sites were in cities that had dedicated HOZ managers or coordinators who had the authority and ability to coordinate other city agencies. One of the most successful cities had a full-time HOZ coordinator.
- Demands on the HOZ manager were heaviest when the project was recruiting partners, leveraging funds, stimulating community involvement, and developing plans.
- Most staff interviewed at the successful HOZ sites stated that they were given autonomy to do their work. This engendered a sense of responsibility and satisfaction.
- HOZ sites that were progressing well had administrative teams that were noteworthy for their cohesion, shared vision, and communication. Team members seemed to respect each other and value the work of the other team members.
- Cities that were clear about both their HOZ goals and task assignments were more successful than those that were less organized about their approach.
- Continuity of personnel was important. The most successful HOZ cities retained staff throughout the HOZ development process.
- A few cities outsourced administrative functions, ranging from preparing the HUD applications to marketing homes. Outsourcing worked well for some cities and poorly for others. The successful cities had a clear delineation of the tasks and skills needed for the outsourced activity, followed by careful oversight of the actual work.
- Some cities hired consultants to carry out specific time-consuming tasks such as developing land use plans and design guidelines, and negotiating land purchases with private owners.

- Most cities took a phased approach to development—acquiring land and arranging financing for one phase and developing that phase before beginning the development of subsequent phases. In some cities, the phases were more clearly delineated as separate subtarget areas or villages; however, a phased approach to acquisition resulted in higher acquisition costs and delays in development for several cities.

Partnerships

Numerous partners are required to transform the HOZ site into a vibrant, viable community. These partners must be able to work together smoothly and efficiently. All partners must understand their roles and responsibilities as part of the HOZ team. There must be a unified vision with common goals. Tasks must be appropriate for each partner's experience and organizational capacity. There must be an effective process for communicating among the various partners and for providing feedback and resolving issues.

Following are some additional observations:

- The most successful cities created strong partnerships among nonprofit, for-profit, and governmental organizations.
- All cities had to develop partnerships with private lending institutions and public grant-making entities.
- Cities that were clear about the responsibilities of each partner performed better than those that did not define the partnership tasks.
- Strong communication, perseverance, and personal involvement among all of the partners were required to keep the HOZ projects on track.
- The capacity of community-based development organizations affected the success of the projects. In one city, the organization disbanded, resulting in a significant delay in development.
- The most successful HOZ cities used strong, active development teams whose members functioned as coequal partners.
- Several of the most successful cities used master builders or developers who worked in tandem with the cities' HOZ coordinators to facilitate project implementation.
- In some cities, the smaller builders ran into problems as the projects progressed due to demands in excess of their capacity and budgets.

Community Participation

Community support for the HOZ project at both the neighborhood and citywide levels can determine success. Community involvement can take many different forms—focus groups, market studies, public meetings, neighborhood associations, or community boards. All of these approaches can work. Maintaining frequent contact with community representatives throughout all of the project's multiple stages will stem the spread of misinformation and assist with marketing the new homes. Respect for existing residents is paramount. Lack of attention to and compassion for community members whose lives are being disrupted can lead to declining political support. Cities must find ways to reach out to community residents and elected representatives during each phase of their projects. Cities must also help develop and support neighborhood resident and homeowners associations, at least in the initial phases. As the HOZ projects progress, the communities will evolve and change.

Following are some additional observations:

- Cities used several models of community participation. The different approaches corresponded to each city's unique historic conditions and political climate.
- Community support often translated into proactive support from the area's political representatives. In one city, a local council member who controlled the disposition of city-owned land, delayed implementation until he was comfortable with the city's development plans.
- Collaboration between community groups and developers ensured that residents learned how the new construction was benefiting them. This encouraged residents to take an active role in safeguarding construction sites by reporting theft.
- As the HOZ housing was sold, new communities formed and community goals changed. Former renters who became homeowners were sometimes the most vocal critics of existing rental housing.
- Several cities organized residents or homeowners associations and provided the associations with organizational and financial support. Local leaders emerged from some of these groups. The more advanced cities were developing plans to wean these groups from city support and encourage them to become self-sustaining.

Financing

Significant public and private financing is required to undertake and complete a large-scale, mixed-income HOZ development project. Leveraging funds from a variety of sources spreads the risk and attracts partners that have a stake in a positive outcome. Nevertheless, each funding source will have its own requirements. These different requirements make project financing very complex. Cities should resist using financing sources that are incompatible with their HOZ master plans. Because of the long-term nature of this type of project and its inherent uncertainties, it is impossible to estimate the full project cost and secure all financial commitments before the start of the project. Making financial partners part of the planning and development team can reap rewards in terms of subsequent financial commitments and administrative ease. Construction outlays can be kept to a minimum by building "on demand." Recycling program income from house sales can also create a funding stream. Significant homebuyer subsidies are required to both attract higher income homebuyers and enable lower income homebuyers to afford to buy their homes. Cities must decide whether to impose resale or recapture requirements on the subsidized units to maintain the neighborhoods' mixed-income character.

Following are some additional observations:

- Multiple financing sources were required to undertake the HOZ project.
- Significant public funds were required. Some public funding sources had requirements that limited the city's ability to sell to homebuyers who were not low-income. These limitations made it difficult to achieve the city's mixed-income goal, even though higher income families were interested in buying the new homes.
- The availability of financing had a major impact on the pace of project development. Most cities were unable to identify all funding sources or obtain all firm financial commitments before their projects started.

- The use of Section 108 Loan Guarantees by the Round One HOZ cities helped to raise significant funds but also delayed project implementation because of the collateral and eligibility requirements of the loan guarantee program.
- Round One HOZ cities were required to meet a deadline for the expenditure of their HOZ Economic Development Initiative (EDI) grants. Cities that did not pay attention to this deadline had to adjust their project budgets. One city lost funds when it ignored its EDI deadline.
- Those cities that used master builders or developers benefited from those builders' or developers' access to lines of credit.
- Those cities that used a presales approach benefited financially because houses were not built until the city had identified qualified buyers who had obtained mortgage commitments.
- Financial incentives were needed to attract homebuyers to the HOZ sites. Some cities provided subsidies directly to the homebuyers in the form of soft second mortgages and downpayment assistance. Other cities provided subsidies directly to the homebuilders or developers to make up the difference between the production cost and the market price of the new homes.
- Experienced loan officers were an asset. Some cities encountered problems with inexperienced mortgage loan officers or appraisals that did not account for or reflect the production cost or sales price of the new housing.
- Creating a mixed-income community was challenging. One city successfully used financial incentives to attract higher income homebuyers to the area. These subsidies were phased out after the HOZ site started to become successful. In all of the HOZ cities, lower income buyers required subsidies in order to purchase their homes.

Land Acquisition

Acquiring land before redevelopment begins takes advantage of land prices at their lowest point, not after the private sector sees the area improving and speculation begins. Cities must start their planning with a survey of city-owned land and vacant parcels or buildings. The extent of absentee ownership should also be determined. After this assessment has occurred, the city can make decisions about the type of development approach—infill or comprehensive new construction—and the amount of funds that must be budgeted. It is likely that most communities will need to acquire some land. Protocols for the transfer of land among public entities must be developed before the start of land acquisition. Cities must decide whether to use eminent domain to acquire important parcels of land. Concentrated code enforcement can be a useful tool to encourage reluctant, absentee owners to sell deteriorated units voluntarily.

Following are some additional observations:

- Cities used several strategies for land acquisition. These strategies were largely determined by the HOZ site's preexisting conditions.
- Cities that controlled significant portions of the land needed for their HOZ strategies avoided the most serious delays that impacted other cities.
- Most cities underestimated the cost and time requirements for land acquisition and clearance. In some cases, unanticipated subsurface conditions on some sites required revised development strategies.

- One city hired a private investigator to locate missing or hard-to-find owners. This approach expedited the land acquisition process.
- Progress in one city was impeded by interagency land transfer issues that had not been resolved at the start of the project.
- In one city, the success of the first development phase resulted in rising acquisition costs that were not reflected in the original project budget. Existing property owners became more reluctant to sell. Using eminent domain was politically unacceptable. Some land speculation started to occur. These factors substantially delayed progress.

Resident Relocation

Relocation is always controversial. Cities should avoid choosing HOZ sites that require substantial residential relocation, especially relocation of homeowners. Using an infill or a phased development approach can reduce the relocation workload. Nevertheless, this approach can also result in a HOZ site with critical gaps in redevelopment. When relocation cannot be avoided, cities should be very conservative in estimating project budgets and timelines. It is important to establish a priority for the HOZ relocation workload within the relocation agency. Cities should adopt responsible relocation policies that aim to improve relocatees' housing conditions and provide them with choices. Social services agencies should be involved as partners from the start of the relocation plan.

Following are some additional observations:

- Most cities did not choose sites that required significant relocation. If relocation occurred, it took place before the HOZ projects started. For example, in two HOZ sites the demolition of public housing as part of HOPE VI projects predated the HOZ development.
- One city had a HOZ relocation workload. The slow pace of relocation caused by a court case and competing priorities within the relocation agency substantially delayed implementation. To avoid additional relocation, the homeownership housing was scattered throughout the area. As a result, the HOZ development is less concentrated, and substandard housing remains.

Home Design and Construction

Quality design and mixed-income development can go together. Desirable exterior design features should not be viewed as an unnecessary expense, but as critical elements for attracting homebuyers. Historic properties or historic designs give neighborhoods character and can make HOZ sites more competitive. The model home approach can work in urban areas and is an effective tool for phasing development costs and marketing units. The use of a uniform building code and design guidelines minimizes the possibility of other city agencies or builders making ad hoc decisions about construction. Cities should develop streamlined, one-stop permit review procedures to reduce developer costs. It may be useful for cities to establish blanket variance for the entire HOZ site to eliminate separate reviews for each property.

Following are some additional observations:

- Those cities that established design standards and ensured that all homes were compatible, even when built by different developers or contractors, had an easier time attracting unsubsidized buyers than did cities that did not establish standards or ensure

the design compatibility of all homes within their HOZ sites. Two cities developed “design codes” to guide development.

- Design standards helped blend subsidized housing with unsubsidized housing and increased the HOZ site’s marketability, especially to nonsubsidized homebuyers.
- Respecting the architectural style of existing houses, even those in disrepair, was an important design element that lent character and identity to several of the HOZ sites. One city combined two small row houses into one unit, maintaining the historical appearance of the facades as two units but providing a larger, more marketable unit on the inside.
- In general, it was less costly to build new houses than to renovate existing ones.
- In one HOZ site, existing homeowners were offered the materials necessary, such as paint, to improve their properties’ appearance and condition. In one HOZ site, existing owners started to fix up their properties after the neighborhood’s transformation became evident.
- All buyers of the new housing, regardless of income, were looking for amenities. With the exception of the New York City site, garages were important to homebuyers. New homes that were competitive with the designs and amenities offered in suburban alternatives sold more easily.
- Model homes proved to be an effective approach for several HOZ cities. Potential buyers were able to choose from different designs, fixtures, and finishes.
- Allowing prospective homebuyers to select both the building lots and the house designs helped create mixed-income neighborhoods.
- One city used periodic onsite construction review meetings as a cost-effective way to avoid any misunderstandings, resolve problems before they became major, and facilitate progress. The meetings involved builders, developers, bankers, and inspectors.
- Not all first-time buyers fully understood the responsibilities and risks inherent in the long-term maintenance of both the interior and exterior of their properties. One city had to intervene when peeling paint on exterior trim became an issue. Another city had to address issues of exterior lawn maintenance.

Environmental Considerations

Energy-efficient, green materials and recycling can be used cost effectively in building affordable housing. Energy-efficient designs reduce long-term home maintenance costs, thereby sustaining homeownership, especially for lower income homebuyers. Recycling, including recycling of onsite materials, can be incorporated into the development process.

Following are some additional observations:

- One city used green building technology to demonstrate how advanced energy efficiency could be incorporated into the renovation of older buildings.
- One city used an onsite concrete crusher and sifter to reuse old sidewalks, curbs, and remnants of old basements. All trees removed from the site were chipped and the resulting mulch was stockpiled and reused. This approach generated cost savings.

- In one city, a small, neighborhood-based recycling company was created.

Creating Demand

Creating demand is crucial for the success of a HOZ project. A resurging economy had the greatest impact on demand for homeownership units in several HOZ sites. Nevertheless, an acceptable level of demand can also result from creative marketing efforts, including favorable coverage in the local news media. A HOZ budget should include funding for a marketing strategy. Cities should use marketing studies to identify potential buyers and plan their marketing strategies accordingly. Marketing efforts should begin early and focus on changing the image of the neighborhood by convincing the public that a lasting transformation will occur. The typical buyer does not always conform to assumptions. Offering prepurchase homebuyer counseling programs that are tailored to the HOZ project, along with homebuyer subsidies, can tap into the pent-up demand of low-income and first-time homebuyers. Incentive subsidies also can be used to attract higher income homebuyers. Word of mouth is important. Seeking and receiving recognition and awards from national organizations can also be very helpful. Postpurchase counseling can help homeowners avoid predatory lending and cope with the responsibilities of first-time homeownership.

Following are some additional observations:

- Most site administrators thought that the existing residents would be the first households to buy the new homes, but this did not always happen. Reasons included the inability of existing residents to afford even heavily subsidized homes, a desire to leave the area, the existence of policies designed to screen out people with criminal records, and credit issues.
- “Typical buyers” varied by site.
- Most cities used multiple marketing methods. Community organizations and faith-based institutions were important allies in reaching out to prospective homebuyers.
- One city used model homes as a marketing tool by placing the model homes on a main commuter street so the general public could envision the HOZ site’s transformation even before substantial construction was complete.
- Another city “branded” its HOZ subtarget areas to create distinct neighborhoods and instill confidence in potential buyers.
- Successful HOZ sites received favorable and consistent news coverage from the planning stage through groundbreaking and completion. “Human interest” stories helped change public perceptions of the area. One city used the “House that Readers Built” to create excitement about the first family to move into a HOZ house. Another city involved the local high school in creating decorative tiles as a design element that would identify the new community.
- Some cities applied for and received recognition from national organizations, such as the American Planning Association, Urban Land Institute, and National Association of Home Builders. The receipt of these awards helped to change the neighborhoods’ image and build demand.
- All of the HOZ cities used homebuyer counseling programs. Counseling programs that were specifically geared to the HOZ project were the most effective.
- One city created a sales center where potential buyers could learn about the HOZ project and obtain loan advice and referrals to homebuyer assistance programs and other support services.

- Several cities provided checklists that outlined the steps buyers needed to take throughout the purchasing and construction processes. This type of checklist made the process less intimidating for first-time homebuyers.

Commercial Development

A new community requires more than houses. Access to commercial and other services contributes to both the desirability and quality of life in a neighborhood. Commercial development tends to lag behind residential development because of the population and income required to support various types of businesses. Most cities are only beginning to address the commercial needs of their HOZ sites. Space for future commercial development should be part of the original HOZ site plan. Market studies should be conducted to determine the type of commercial ventures that homebuyers desire and that will also survive in the HOZ site. Until homebuyer demand builds, businesses may require subsidized space and other incentives to move into the area. One approach is to treat important commercial services as a form of public service or as an amenity, and provide loans, grants and other financial incentives to attract these businesses.

Following are some additional observations:

- Attracting quality businesses has been difficult. One city tried to attract businesses but was unsuccessful because the consumer base was inadequate.
- One city was successful in developing a commercial area by using a nonprofit developer that had received grant assistance to subsidize the commercial development.
- Not all cities took a comprehensive approach to neighborhood development by including commercial development, public facilities and other amenities within their HOZ sites. Several cities only focused on residential development.