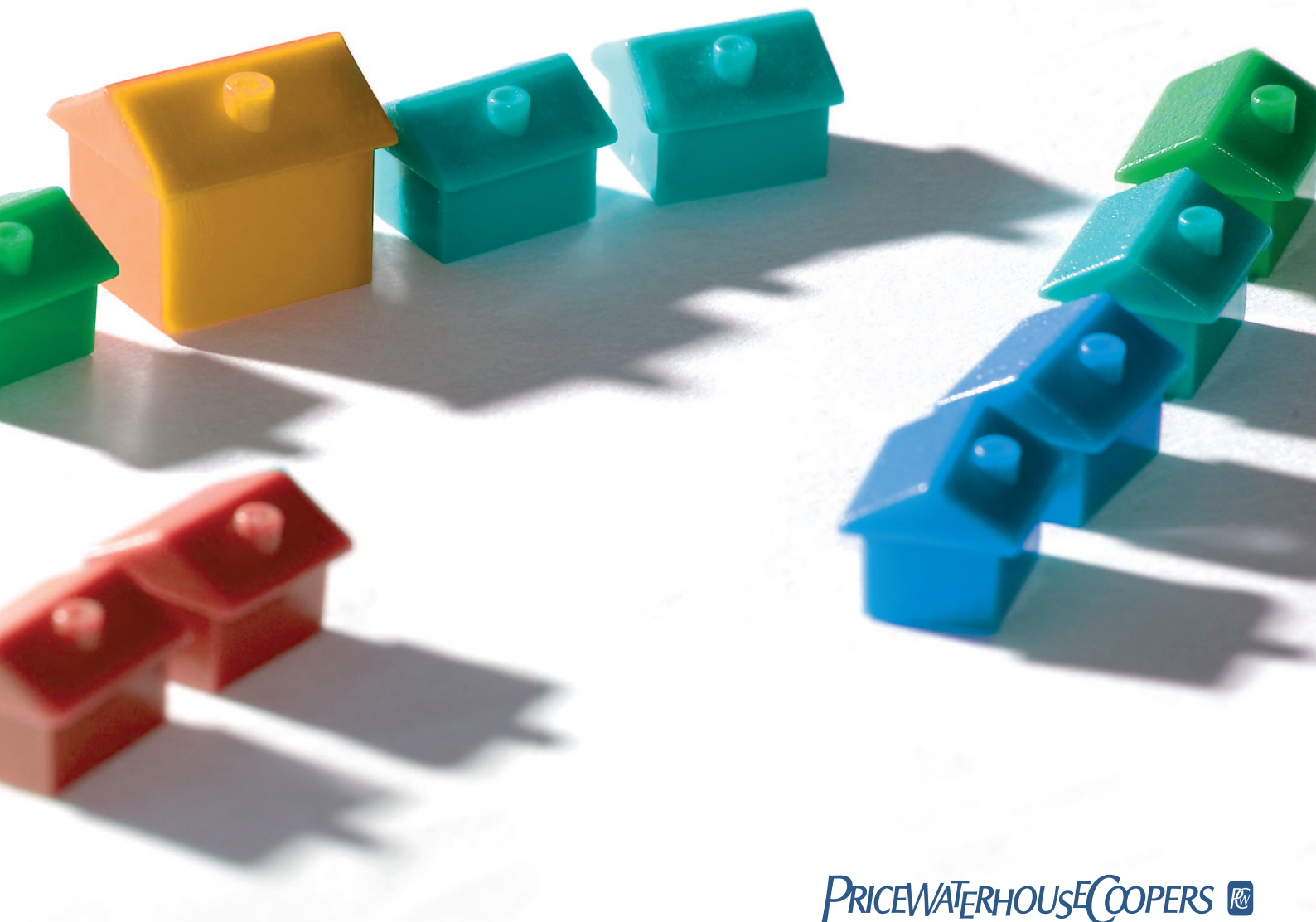


Investing in HOPE

Lessons from the USA on Mixed Communities





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Introduction

The HOPE VI (Housing Opportunities for People Everywhere) mixed communities programme in the USA has been heralded as a revolution in housing policy by some and an expensive experiment by others. However, while some of the HOPE VI housing developments have not lived up to all that was promised when the programme was initiated in 1993, this multi-billion dollar initiative has improved the lives of thousands of people in many of America's most deprived communities. Furthermore, HOPE VI has fundamentally changed the way both the federal and local government approach social housing and urban regeneration, with a new focus on public-private partnerships and long term investment to create new mixed communities.

PricewaterhouseCoopers advise on housing projects and new policy approaches in the UK and overseas, including mixed communities. In order to broaden our understanding of the housing market and continue our exploration of innovative solutions, PwC studied the much-heralded HOPE VI mixed communities programme in the USA. Following a series of discussions on the American experience with Government and

other key stakeholders in the UK, PwC Partner Richard Parker led a UK housing and regeneration delegation to the USA in September 2006. The delegation met leading thinkers and practitioners behind the HOPE VI programme in Washington, DC and Boston, Massachusetts.

This paper discusses the HOPE VI programme – its context, outcomes, benefits and challenges – and the observations made along with the lessons learned by the UK delegation.

For their contributions to the delegation's visit to the United States PwC would like to thank: The Brookings Institution, The Urban Institute, Turbov Associates, the Centre for Urban Redevelopment Excellence (University of Pennsylvania), the District of Columbia Housing Authority, the Affordable Housing Institute, Telesis Corporation, the Annie E Casey Foundation, Recapitalization Advisors, the Community Builders, Nuestra Comunidad Development Corporation, Mission Works, The Reinvestment Fund, the Smart Growth Leadership Institute, Arlington County Board, and Harvard University (Joint Centre for Housing Studies).

For their insights during the visit and their contributions to this paper, PwC would like to thank the delegation: Mike De'Ath (HTA Architects), Kevin Parkes (Middlesbrough Council), Kim Penfold (Harvest Housing), Mel Godfrey (Knowsley Council), Tom Titherington (Hyde Housing), Alisdair McIntosh (the Scottish Executive), and Paul Hackett (consultant and former Government adviser).

Background

US public housing policy dates back to the 1930s when subsidised housing was first made available to low-paid workers.

Throughout the post-war era public housing suffered from weak management, inadequate funding and poor planning and design. By the 1980s, a significant proportion of public housing stock was severely distressed and living conditions in the worst estates were increasingly desperate, with high rates of poverty, unemployment, crime and drug abuse.

The bipartisan Congressional National Commission on Severely Distressed Public Housing (1989-1991) identified the overall failures of public housing and highlighted the costs to society. The Commission's report showed that

around half of America's public housing stock was located in neighbourhoods of extreme poverty, and more than 80% of public housing residents lived below the poverty threshold. Furthermore, it discovered that the concentration of profoundly poor households in distressed public housing was partly due to the Department of Housing and Urban Development (HUD) targeting assistance to households at the very lowest income levels and failing to address the multiple causes of deprivation. Poor housing conditions contributed to the concentration of poverty, creating a spiral of decline. Only the very poorest, with few alternatives, were willing to live on distressed housing estates. The housing market evidence suggested that small or incremental efforts to

tackle urban decline made little impact, and that a more joined-up and sustained approach which looked beyond just the needs of the most deprived was necessary in order to make a real and lasting difference.

On the back of the National Commission's report, Congress enacted the HOPE VI programme which was designed to transform neighbourhoods and improve the social and economic well-being of the surrounding area. The programme was initially authorised with federal funding for HUD for the ten years from 1993 to 2003, with support from the voluntary and private sectors. The programme was extended in 2003, although HUD's annual budgets have been significantly reduced.

Social Housing in the USA and England

	USA	England
Size	5m households (5%)	4.1m households (19%)
Profile	high concentrations of extreme poverty	high concentrations of worklessness
Public sector	federal (central), state, local govt	central government, local authorities, housing associations
Private sector	often lead developer and major funder	usually contracted and sometimes co-funder
Funding type	grants, vouchers, tax credits, equity	grants, housing benefit, loans
Who manages?	states, cities, housing authorities	local authorities, housing associations
Interventions	tax credits, vouchers, planning zones, tenant screening	right to buy, shared ownership

Source: The Brookings Institution/PwC

HOPE VI developments

The HOPE VI programme, totalling some \$6bn (£3bn) and covering 446 grants in 166 cities, involves unprecedented demolition and development in the most acutely deprived communities in the United States. The programme, which combines grants for development with funding for management improvement and support services to residents, was initially aimed at addressing the needs of families locked in concentrated poverty. HUD later began actively promoting mixed-income housing and relocating families through housing vouchers to decrease the concentration of very low income families.

The HOPE VI programme changed dramatically in 1995 when HUD created the mixed-finance development model, allowing public housing authorities to work through private sector developers. The aim was to attract private finance on the back of publicly-funded programmes in order to remake entire neighbourhoods. To ensure a greater mix of tenants, HUD supported private investment in deprived neighbourhoods and encouraged developers to leverage HOPE VI funds with private finance (partly raised through Low-Income Housing Tax Credits).

For the first time in its history the construction and management of public housing was rooted in market principles – public housing units were integrated within larger private developments that were built for people who had real housing choice. In addition, HOPE VI placed a priority on the demolition and rebuild of existing properties over new-build housing developments.

This public-private approach to mixed community development pioneered by HOPE VI has resulted in housing developments that are viable, attractive to the market and third party investors, and sustainable over the long term. Other benefits include: better stock management; improved design; better connectivity to local services and amenities; and increased resident safety.

HOPE VI communities are mixed income communities – the tenure mix is pre-determined and micro-managed to ensure a balance of tenures is maintained. Rental levels are linked to income levels. Owner occupied housing is sold at a discount to ensure it is affordable to those in employment. However, an owners' ability to benefit from equity appreciation is capped, enabling the unit to be recycled as affordable to successive owners. An affordable home can be redesignated for market rent or sale after a period of time, and the housing authority often has the first option on purchase of the property at market value.



Neighbourhood impacts

To date more than 100,000 housing units have been demolished or earmarked for redevelopment under HOPE VI, with a further 50,000 homes newly built and another 45,000 new homes in the pipeline. Supporters of the programme claim that HOPE VI has succeeded in bringing about positive changes for residents, neighbourhoods and surrounding areas. The programme is also viewed as complementary to local regeneration schemes, such as those sponsored under the Community Reinvestment Act (which requires banks to invest in deprived areas).

Tenant surveys show high rates of satisfaction with HOPE VI projects, although the level of resident participation in planning a new development and running housing services varies widely by project.

Research evidence from HUD, Brookings and the Urban Institute indicate that HOPE VI has delivered transformational change:

- The majority of severely distressed HOPE VI units have been demolished and replaced with new, high quality affordable homes.
 - New mixed income, mixed tenure communities have been created on a meaningful scale with significant economic and social benefits (see box below).
 - The programme successfully leverages additional private finance (around \$1.85 for every \$1 of HOPE VI funds).
 - New developments combine subsidised rental housing with market-rate housing, and allow housing authorities to experiment with different management approaches.
- HOPE VI has been a catalyst for innovation in planning and design, and demonstrates how subsidised housing can be successfully integrated with private housing by adopting 'new urbanist' design principles.
 - Mixed income housing reduces reliance on federal subsidies and creates a strong market incentive for good housing management and better care of the public realm.
 - HOPE VI has allowed federal government and housing authorities to act as one agent and fostered new public-private partnerships, creating a critical mass of effort and focusing resources on a specific place.

Neighbourhood Impacts of HOPE VI Developments 1989-99

Project	Income %	Unemployment %	Crime rate %
Centennial Place (Atlanta, Georgia)	+174	n/a	-93 ⁽²⁾
Park DuValle (Louisville, Kentucky)	+193	-28	-82 ⁽³⁾
Manchester (Pittsburgh, Pennsylvania)	+23	-4.4 ⁽¹⁾	-24 ⁽⁴⁾
Murphy Park (St. Louis, Missouri)	+33	-11.2	n/a

⁽¹⁾1990-2000; ⁽²⁾1993-2004; ⁽³⁾1990-2002 ⁽⁴⁾2000-2001

Source: HOPE VI and Mixed-Finance Redevelopments: A Catalyst for Neighbourhood Renewal, The Brookings Institution (2005)

Concerns and challenges

Critics of HOPE VI claim the programme has failed to live up to expectations, not least in terms of slow completion rates. Some schemes, such as Chicago's Cabrini-Green, have taken over 10 years to complete and others proved much more costly than expected, with around half of the new-build developments receiving large subsidies.

A major concern among proponents and critics alike is that HOPE VI projects fail to meet the needs of an area's original residents, especially the most vulnerable. In some schemes only 10% of the original residents found new HOPE VI homes, although the average is closer to 25% (depending on a variety of factors, such as length of time to transform an area and the degree of social screening of new residents – including minimum work requirements, health and police record checks).

Housing vouchers account for around 35% of the social housing market. All displaced HOPE VI residents receive these vouchers and most are rehoused, mainly in public housing. But, problems remain with the 'hard-to-house', who rely on public housing support services and would not pass strict screening requirements (many HOPE VI developments operate strict housing contracts with a 'one strike and out' policy applied to misconduct such as drug abuse). Because of this, many former residents of pre-HOPE VI communities continue to live in the most deprived neighbourhoods.

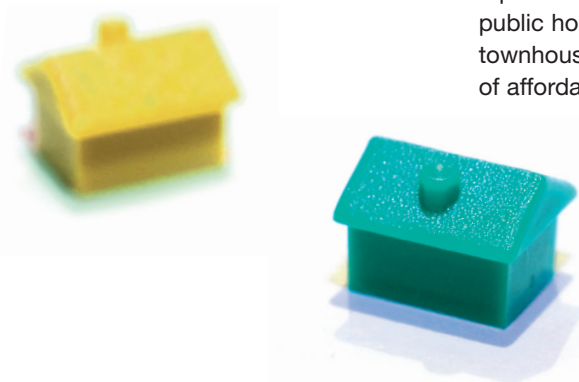
Critics claim that while there is plenty of evidence to show that mixed income developments can be successful in terms of creating new, well-managed and sustainable communities, data does not prove that they necessarily benefit low-income families. Indeed, the research suggests that in reality there is little interaction between higher and lower income residents. In addition, the replacement of high-density, high-rise public housing with lower-density townhouses has resulted in a net loss of affordable housing units.

Low Income Housing Tax Credit (LIHTC)

Investment tax credits have proved popular in the USA, especially in HOPE VI developments. The LIHTC is the most well known and has been operating since 1987. Over \$60bn of investment has been funded through the scheme, providing more than 1.2m affordable homes. The states allocate LIHTC through a housing agency which awards credits to developers who in turn sell on the credits to any organization to offset against tax. The receipts create the equity for HOPE VI projects. The success of the scheme depends on the securitisation – i.e. the sponsor selling the future tax credit to an investor for cash.

LIHTCs are claimed over a ten year period, beginning when the tenants take occupancy. The amount of housing credit available to the property owner is a percentage of its qualified development costs (excluding land). The level of subsidy is directly proportional to both construction costs and the number of units occupied by low income households. Rental restrictions apply and the scheme can be targeted to any property type.

Critics claim LIHTC is complex and costly, in part because of the need for intermediaries and a secondary market in discounted tax credits.



Lessons learned

There are marked differences between the US and UK housing markets, not least the scale and complexity of the American housing and real estate markets. For example, there are over 13,000 housing authorities in the US and thousands of property development firms. Moreover, the US is a confederation of states with the individual states utilising a wide range of financial tools and investment vehicles. Public attitudes to social housing and homelessness are also different, and the social and economic divide in many US cities is more acute than in the UK.

However, the HOPE VI programme provides valuable insight into many of the issues that impact on social housing in the UK. The delegation made the following observations:

Critical factors for success

- Strong local leadership and interagency co-operation – the support of city mayors is particularly important for long term vision and sustained investment and intervention.
- In soft housing markets, more radical solutions are required – with greater emphasis on private housing as a force for renewal.
- For transformation to succeed there must be a mix of residents – owner occupiers on higher incomes are key.
- A culture of change, challenge and experimentation.

The social dimension

- Hope VI demands a strong commitment to the “re-engineering” of places, particularly in the regulation of tenure mix, resident participation and the relocation of the ‘hard to house’.
- The Housing Vouchers system enables former tenants to move elsewhere. This type of portable subsidy is critical to the redevelopment of distressed communities, especially given that HOPE VI projects can take three years or longer to complete.
- The welfare demands of HOPE VI areas remains high and extra resources are necessary to provide ‘wrap-around’ care services for families in need.
- The punitive tenancy agreements and strict screening criteria would be unacceptable in the UK.

Housing development

- Most developments are local in scale and concentrated on a specific community but with a limited set of linked local initiatives.
- Planning and design quality is improving, but lower than is typical in the UK and Europe.
- The replacement properties are for rent and sale, often stratified at a number of levels of affordability (from very low income to market

rent housing and market sales at affordable prices that are controlled).

Financing

- Private finance is used to fund new homes and maintain amenities (necessary to attract higher income households), and does not simply subsidise public housing.
- Developments benefit from local land use zoning and local fiscal freedoms, including levying local property taxes to support mixed community housing projects.
- Flexible tenures help to capture value and reduce reliance on grant aid.
- Collaboration between public and private sectors. As in the UK, there are limits to both federal and local government’s ability to successfully intervene in housing markets over the long term as government is not well placed to take or price market risk. But government’s strategic influence and its existing asset base can help secure significant private sector investment.

Conclusions

Fourteen years have passed since the HOPE VI programme was first launched. Progress has been slow and costly, but supporters of HOPE VI argue that this type of major redevelopment takes longer and demands more time and effort. Yet, despite its limitations, HOPE VI represents a significant break from many of the failed policies of the past, not least in the way it seeks to directly address the problems that arise from concentrations of poverty in areas of extremely distressed housing. On their own, mixed community schemes like HOPE VI cannot repair urban poverty or address the multiplicity of overlapping factors which result in neighbourhoods of despair, but the evidence suggests they can make a significant contribution.

In a country where housing is a privilege not a right and where the public debate on social housing remains low on the political agenda, HOPE VI has, over time, had to struggle to secure the necessary backing and funding. Mixed income, mixed tenure developments are not the norm in the USA and the federal government continues to spend ten times more (\$100bn) on mortgage interest relief to home owners than on subsidies to public housing. Nevertheless, HOPE VI has been remarkably resilient and has fostered new and innovative approaches to creating mixed communities.

At their best, HOPE VI schemes provide a safer, more stable, more socially cohesive, and more attractive environment for residents. They offer a better quality of life for low-income residents throughout the area, more opportunities for resident involvement in the community and often provide greater access to education, health and employment services. Although problems persist with the 'hard to house' and the socially excluded – creating integrated, balanced communities has helped transform entire neighbourhoods.

Mixed income developments have encouraged new forms of public-private partnerships, challenged traditional forms of financing, planning and design, added value to the surrounding area, and helped join-up local services. At its best, HOPE VI developments jumpstart deprived communities and lever private investment into areas where there has been prolonged market-failure.

These benefits alone are justification enough for the lessons from HOPE VI to be taken seriously by politicians, policy-makers and practitioners on both sides of the Atlantic.

Further reading

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