AFFORDABLE DOWNTOWN HOUSING: INNOVATIVE U.S. MUNICIPAL INITIATIVES AND A CASE STUDY OF SEATTLE

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ABSTRACT

The past decade has witnessed both steep reductions in federal housing assistance and an intensification of local housing problems including homelessness. In light of these trends, this study explores alternative means available to municipalities of meeting the housing needs of low-income households.

The methods chosen to accomplish this were two-fold: a literature review and a case study. The literature review revealed that in response to the Reagan administration’s 1981 cutbacks to housing programs a new low-income housing delivery system, based largely on public-private partnerships, has emerged from the grass roots level in communities across the United States. In the new production system efforts have focused on preservation rather than new construction, and large for-profit developers have been replaced by nonprofit community-based development corporations and local public agencies. With the assurance of federal subsidies gone, local governments and nonprofit developers have sought to increase the effectiveness of current resources, direct more general revenue to housing activities and have raised new resources. Today, financing packages for low-income projects are usually built upon customized and creative financial packages that are difficult to replicate, and as a result, no definitive solutions have yet been found.

Despite the hard work and creativity that has gone into developing low-income housing in the U.S. over the past decade local programs have been able to meet only a fraction of the country’s housing needs.

The case study method was chosen to focus on the City of Seattle, Washington’s specific housing initiatives. The City’s response has closely followed the national experience. A new delivery system has emerged which depends largely on the efforts of the City’s municipal government, through its Department of Community Development, and the community’s growing nonprofit sector. As a
matter of policy Seattle has chosen to spend most of its low-income housing dollars on preserving the downtown's remaining 7,311 low-income units. The City does not build housing itself, but instead, acts as a "bank" loaning money generated, for the most part, by off-budget strategies to nonprofit housing developers to rehabilitate existing low-income units to meet housing code standards.

Seattle's housing programs have had mixed results. Despite their efforts, due to downtown's expansion, the City has continued to lose low-income units in the downtown to demolition and rent increases, no gain has been made on the City's overall housing need, and while the City has replaced the lost federal subsidies, it has not created significant ongoing revenue streams for future housing development.

Results of this study indicate that, only the long term commitment of federal funds to a national housing strategy can stem the growing tide of homelessness across the U.S. and avert a deepening of the country's housing crisis.
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CHAPTER ONE
Introduction and Background

The housing situation in Vancouver's Lower Mainland is fast approaching crisis proportions. Homelessness is on the rise, demolition of rental stock for condominium development is common, rents are soaring and vacancy rates of one percent and below make the search for an affordable rental unit very difficult.

Historically dependent upon the various federal incentive programs to provide social housing units and encourage rental construction and home-ownership opportunities, the City of Vancouver is now, in light of severe federal budget cutbacks to housing programs, ill equipped financially, administratively and in policy formulation to address these emerging problems.

This thesis explores alternative means available to municipalities of meeting the housing needs of low-income households in the face of steep reductions in federal housing assistance and the intensification of local housing problems. To do so this thesis documents in a literature review the range of innovative municipal housing initiatives found in practice today in the United States.

As an example of a community moving to take housing actions to fill the gap between private housing resources and the increasingly limited direct federal assistance this thesis documents, by way of a case study, Seattle's municipal housing initiatives between 1980 and 1990. It limits its inquiry to those programs which have as their goal to protect, rehabilitate or create housing for low-income people within the downtown area.

1.1 SCOPE AND DEFINITIONS

While it is hoped that the policies adopted by a municipality will have as a goal the creation of a community with housing for people of all income levels, this thesis
explores only those initiatives which target housing for low-income households in a city's downtown area. Low-income households are defined as those households whose incomes are at or below 50% of the area's median income. Discussion is further limited to program initiatives which generate "affordable" rental, non-profit (social) or co-operative housing for this group. This definition rules out homeownership.

The case study will limit its area of inquiry accordingly. Attention will be focused specifically on that part of Seattle's central area bounded by Denny Way on the north, Interstate 5 on the east, and South Dearborn Street on the south. The study area includes the following neighbourhoods: Denny Regrade, Pike Place Market, Pioneer Square, International District and both the N.E. Central Business District and Central Business District.

(See FIGURE 1)

The thesis focuses on "innovative" American municipal housing initiatives and will not explore programs which copy old federal programs in design, called in the literature federal "wanna bee" programs. "Innovative" is broadly defined and may include either new funding arrangements or program administration. The programs to be explored, however, will involve the municipality or its agent, i.e., a housing authority, planning or community development department working on its own or in partnership with private or nongovernmental organizations, and state or federal authorities in any role (such as administrator, implementor, or simply as funding source). It also includes the innovative use of municipal funds to leverage federal or state dollars.

The time frame for this inquiry begins in 1980, the year of Reagan's election to the Presidency of the United States and ends in 1990. This is sufficient time for municipalities to feel the effects of Reagan's budget cutbacks to federal housing programs and respond with a housing strategy of their own.
Finally, this thesis seeks to provide the reader with as broad a range of housing alternatives as possible and does not limit itself to identifying only those initiatives feasible in current Canadian legal or political situations.

FIGURE I

Map of Seattle's Downtown
1.2 RATIONALE

A survey of innovative American municipal housing initiatives opens up the range of program options available to Canadian municipalities searching for solutions to their own local housing crises.

Innovative actions were required on the part of American local governments over the past decade when in 1980 the most ideologically conservative federal administration since the 1920s was elected resulting in the disengagement of federal agencies from direct and active intervention on behalf of the disadvantaged. The federal government called upon states and localities to solve community development problems with their own resources or by stimulating private sector investment. (Hays 1985:254) The money made available to the federal housing department had been cut by 75%; a reduction since 1979, from $32 billion to $7.5 billion as programs to build new public housing and renovate old dilapidated tower blocks were eliminated. In this same time period, nationally, the waiting list for public housing reached one million and it was speculated that 12 million more poor families were in need of help to pay their rent.

Subsequent actions taken at the local level to provide affordable housing and stable, revitalized communities have shown "an unprecedented creativity and resourcefulness" which linked states, localities, public housing authorities, community development agencies, non-profits, and the private sector. (Sause 1989) For Canadian municipalities experiencing a similar reduction in the role played by the federal government in housing production, the American experience provides valuable examples of new funding sources, possible new players of the "housing game" and new roles for old players of that game.

For several reasons the City of Seattle, Washington, provides a useful case study of a locality whose housing programs, since 1981, have increasingly shifted from near
total dependency on federal resources to the introduction of a range of local resources and initiatives.

First, there are many similarities between Vancouver and Seattle. Like Vancouver, Seattle is an established port city situated in the Pacific Northwest. Similar in population size (Seattle 486,200 in 1986 and Vancouver 430,000), both cities are experiencing a period of sustained population growth which translates into an extremely strong demand for housing. In Seattle’s surrounding King County this strong demand can be attributed to the Seattle Metropolitan Area’s continued employment growth which in 1987 attracted 42,000 jobs or 61 percent of Washington State’s employment growth. In Vancouver and the Lower Mainland migration of families from other Canadian cities and immigrants from abroad have dramatically increased the population.

The cost, or affordability, of housing is a problem in both cities. In both, almost all new construction is redevelopment as large tracts of vacant unplatted land no longer exist. In Vancouver, most of the current zoning capacity for future housing in the downtown peninsula lies on privately owned land on the north shore of False Creek and the waterfront owned respectively by Concord Pacific and Marathon. While both projects offer potential sites for affordable housing, the uncertainty of federal funds for social housing on the sites and the escalation of land prices in the adjacent Downtown Eastside, where housing has traditionally been affordable, will more likely have a negative impact on the availability of affordable housing. (Murphy 1988:29)

In both downtown areas, small, outdated or deteriorated buildings are giving way to new housing (usually upscale) and commercial/office development. In Vancouver’s Downtown Eastside 1,150 affordable rental units or 10% of its residential hotel and rooming house stock was lost to demolition, conversion to other uses or gentrification between 1985 and 1989. (Hulchanski 1989) In Seattle, while
the rate has slowed, there continues to be a net loss of low-income units in the downtown area. Primarily due to building closure or change of use, rent increases or unit reconfiguration or demolition, 1,310 units were lost from 1983 to 1985 and 149 from 1985 to 1987. (Task Force 1988:4)

In both cities development generates similar concerns. With most of the infrastructure already in place, new development places a greater demand on the need to maintain roadways, utility and drainage systems, bridges, open spaces and parks, and other public facilities. Increased traffic negatively affects existing levels of congestion and the environment of streets and neighbourhoods. In both cities neighbourhoods are concerned with maintaining the character of their residential areas in the face of development pressures.

Second, Seattle's reputation for progressive housing programs makes their initiatives worthy of study. Seattle has historically pursued all available federal funding sources in order to maintain a balanced housing program that has included new production of units as well as preservation of existing units. Since 1981, in order to continue to address critical housing needs, Seattle has both developed locally funded programs and lobbied the State to expand its own role in housing. Program development did not occur in isolation and formed part of a comprehensive review of city-wide housing policies, programs and goals by City Council. This process included the establishment of a broad-based citizens' Housing Policy Resource Group whose mandate was to advise the City on policies and funding strategies. Careful attention was paid, during this process, to a review and assessment of the housing needs of low-income people in the downtown area.

While local resources could not be expected to make up completely for federal funds lost in the Reagan budget cuts (funding went from $42 million in 1979 to $3 million in 1985), the City has developed innovative local programs aimed to fill this gap such as:
- a $48.1 million Senior Housing Bond Issue passed in 1981 to fund 1,350 units of housing.
- the 1985 Downtown Land Use and Transportation Plan which created a Housing Bonus Program and a Transfer of Development Rights Housing Program for the production and/or preservation of low- and moderate-income housing in the downtown.
- a Growth-Related Housing Program, also passed in 1985, which provided funds equal to property tax revenue generated by new downtown development to produce and preserve low-income housing.
- a $49.975 million housing levy passed by voters in 1986 to create 1,000 low-income housing units over an eight year period.

Seattle's local housing preservation programs are administered by the City's Department of Community Development (DCD) which provides resources to the Seattle Housing Authority (SHA), non-profit and for-profit owners. Since federal funding for constructing additional public housing units has virtually ended, SHA is beginning to use local funds to acquire and rehabilitate buildings as an innovative means of continuing to produce publicly owned low-income housing. (DCD 1990:6)

1.3 METHODOLOGY AND ORGANIZATION

The methods chosen to explore innovative alternative means of meeting the housing needs of low-income households are two-fold: a literature review and a case study. The thesis begins with a survey of current books, reports and journal articles which discuss local initiatives in municipalities across the United States. This section provides a brief review of how housing production has changed over the past decade
and a discussion of the new revenue sources that localities are tapping into.

The case study method was chosen to focus on a single community's specific housing initiatives. The case study, as Yin (1988:25) points out not only offers the opportunity to explore and describe phenomenon but also to explain them. Drawing on the case study method's "unique strength" which allows the researcher to deal with a "full variety of evidence," multiple sources are used including: program descriptions and reports from Seattle's Department of Community Development, interviews with DCD staff, interviews with representatives of non-governmental agencies, current books, journal and newspaper articles. (Yin 1988:20)

Chapter One identifies the area and scope of the inquiry, offers a rationale for its undertaking and describes the research methods chosen to carry it out.

Following the introductory chapter the thesis is organized into three parts. In PART I (Chapters Two, Three, and Four) a survey of current literature is undertaken to describe the nature of the local response to an intensification of local housing problems in the face of a decline in federal level housing support.

In PART II (Chapter Five and Six) the case study of Seattle's innovative municipal housing initiatives is presented. The case study has four objectives:

1) to provide a profile of Seattle's downtown neighbourhoods - its residents, its housing stock and the nature of its housing problems;
2) to provide a brief discussion of the evolution of City housing production policy and programs;
3) to describe the nature of Seattle's emerging low-income housing delivery system; and
4) to briefly discuss Seattle's program responses which facilitate the preservation or production of low-income housing in Seattle's downtown.
PART III Chapter Seven offers concluding comments both on the local response nationwide and the City of Seattle's individual response. In addition, suggestions are offered for Canadian municipalities dealing with a shortage of affordable downtown housing and a housing strategy for the United States in the 1990s is briefly outlined.
PART I: SURVEY OF U.S. MUNICIPAL INITIATIVES

CHAPTER TWO
Organizations Involved: Public, Private, and Nonprofit Groups

As long as the federally funded housing programs offered a reliable and standardized pipeline for low-income housing there was little incentive for innovation or leadership in low-rent housing supply on the part of state or local governments, nonprofit or philanthropic organizations. However, with the decline in federal level housing support in the 1980s and the intensification of housing problems, including homelessness, there was a critical need to create a new and workable production system and innovative financing alternatives.

The system which has emerged, the literature reveals, while still not fully in place, has evolved in a decentralized, bottom-up manner and depends on a great variety of small development entities. New funding methods are constantly being tested and either expanded, rejected, or refined all over the United States. Pickman (1986:14) notes that because projects are often built upon customized and creative financial packages that are difficult to replicate, no definitive replicable solutions have yet been found.

In the new production system large for-profit developers have been replaced by small for-profit developers (although on a limited scale), nonprofit community based development corporations and local public agencies. Typically, this new system relies on "joint ventures" or "public-private partnerships" to bring together the public sector and the private for-profit sector or the private nonprofit sector to share the risks involved in financing projects that neither would attempt alone.

While most observers applaud the efforts of these local development entities, they lament the fact that so much effort is required to produce relatively few low-income
housing projects and that, in some cases, few of the units that are built target the very poor.

This chapter discusses the major players and their roles in the new low-income housing production system which includes local government, nonprofit community development corporations, intermediate agencies such as the Enterprise Foundation and the Local Initiative Support Corporation, and public/private partnerships.

2.1 Role of Local Government

Today, local governments in the U.S. are assuming increasing responsibility for addressing some aspects of the affordable housing problem in their communities by marshalling federal, state, local and private resources and by becoming directly involved in the provision of housing. Without federal direction, local governments have moved from simple program administration to a proactive role which involves structuring programs, initiating projects, participating in the financing and development and guiding developers through the public approval process. (Pickman 1986:10) The scale of this response appears to be dependent upon the perception of the "crisis" nature of the local housing problem; the extent to which the federal withdrawal was seen to be long term; and the localities' previous experience in subsidized housing. (Stegman 1987:4)

For many communities the search for appropriate solutions begins with the appointment of a "blue-ribbon panel" to study the nature and extent of the local housing problem; to assess the community's institutional needs and its capacities to address them; and to create a data base upon which informed local housing policies will eventually be built.

In communities where housing issues had never before been a part of the political agenda, a housing task force, housing commission, or study committee, serves to educate key decision makers and raise the level of consciousness within the
community regarding local housing conditions thereby initiating a debate, which Stegman (1987:23) describes as a "necessary prelude to action." This debate helps to define the range of a local program's parameters, including the eligible populations and the income limits of the families to be served.

Stegman's review (1987:26) of housing task force reports found their work significant for several reasons. First, local strategies developed by second-tier communities do not merely copy old federal programs but instead are directly tailored to the specific characteristics of the housing finance market of each locality and are highly targeted addressing specific well-documented local needs. In Los Angeles, for example, a report by the Blue Ribbon Committee for Affordable Housing (1988:7) identified the preservation of existing affordable housing units as a community priority and recommended the following measures to address the problem:

- institute a deferred payment loan program to preserve those brick buildings whose 50,000 units are the most important component of the city's stock of affordable housing;
- develop a mechanism to transfer ownership of slum properties to non-profit ownership if landlords refuse to rectify health and safety violations after repeated citations;
- implement a strategy to preserve the affordability of buildings that are losing federal subsidies;
- develop a purchase and rehabilitation program to encourage the private sector to buy existing affordable housing, rehabilitate it and guarantee long-term affordability;
-extend the Earthquake Hazard Reduction Ordinance until a loan program can be put into place to rehabilitate brick apartment buildings and preserve their long-term affordability;
-give lowest priority in the issuing of building permits to projects that will result in a net reduction of affordable housing units.

Second, Stegman (1987:27) found many communities were spending a great deal of time and effort on important institutional issues that were of little consequence as long as the federal government paid the bills and dictated program structures and regulations. The task force provided a forum for determining how locally funded programs were to be administered and how housing responsibilities were to be allocated among local housing authorities, community development agencies, existing non-profit development entities, and community-based organizations. In Los Angeles, the Committee recommended the creation of a central housing commission to replace the existing fragmented structure which involved at least eleven separate city entities in housing budgeting, implementation and policy making. In addition, the Committee recommended the creation of the Los Angeles Housing Partnership, a public/private partnership designed to tap private sector resources and expertise to fill critical gaps in the housing delivery system. (Blue Ribbon Committee for Affordable Housing 1988:5,7)

When surveyed in 1989, 25 of the largest 51 cities in the U.S. reported using locally generated revenues to directly or indirectly stimulate the production of affordable housing. (Berenyi 1989:i) (See APPENDIX A-1) In addition to appropriating more general revenues for housing, municipalities are aggressively searching for new and predictable revenue sources. As Los Angeles's Blue Ribbon Committee for Affordable Housing (1988:15) reported, "...a city program that turns
the spigot on and off will never cultivate a dependable group of affordable housing developers and will never evolve into a rational and effective approach to solving our housing problems." To achieve a similar goal in the City of Milwaukee, ten local banks and savings and loans with the Wisconsin Electric Power Co. have formed a nonprofit lending entity called the Housing Partnership Corporation, to provide low-interest financing to community based developers for affordable housing projects. (Conference of Mayors 1989:16) Stegman (1987:3) notes that, the array of new sources is extensive and includes among other ideas, new real estate-related taxes, fees on new development, community loan funds and housing trust funds. (See APPENDIX A-2)

Finally, many local governments are using existing resources more effectively, offering developers services and in-kind contributions which cost little to the municipality as incentives to develop low-income housing. The National Association of Home Builders (1986:87) lists the following as among the more important:

- gifts or write-downs of city-owned land;
- assistance in land assembly, through powers of eminent domain;
- "up-zoning" to permit greater density on a site;
- streamlining the application procedure and processing time for necessary permits; and
- property tax exemptions or reductions.

Nenno has identified a growing movement within cities to inventory their assets, assess their value, and put into place a decision-making process to use them in more productive ways. She describes Denver, Colorado as a "pioneer in asset management" with a department created specifically for that purpose. (1990:20)

In many communities municipal development initiatives have focused on maintaining or creating a housing base in their downtown areas. Nenno (1988:90)
traces this trend to a number of causes, including the transition from outer-area manufacturing to downtown office and service jobs, the revival of downtown retailing, and improvements in mass transportation systems.

Initiatives have typically taken two forms. (Nenno 1988:90) The first, is the mixed-use development which combines housing (usually upscale condominiums) with office and retail use. (Flynn 1987) Such developments recognize that downtown office and commercial development can be better sustained with a housing component to keep activity in the area after business hours. (Nenno 1990:17)

The second form of initiative, as identified by Greer (1987:69), results from the loss of low-rent housing units through the revitalization of commercial, office and institutional uses and focuses local efforts on maintaining or replacing this declining stock. To this end cities such as Atlanta, Hartford, Los Angeles, San Francisco and Seattle have adopted "Housing Preservation Ordinances" designed specifically to preserve downtown housing while Los Angeles, San Diego and Seattle have adopted a strategy preserving and rehabilitating SRO hotels as an integral part of their downtown areas. (Nenno 1990:17)

There are also a growing number of programs which address the problem of homelessness at the local level. The National Association of Housing and Redevelopment Officials has documented thirty case examples of such programs ranging from the leasing of private housing units, new construction or substantial rehabilitation of housing for emergency shelters or permanent housing, and construction or rehabilitation of structures for transitional housing. (Nenno 1990:18) A number of local agencies, through programs such as the Minneapolis/St. Paul, More Than Shelter Program, have undertaken multiple activities to assist homeless persons. This program represents a coordinated response by the two cities, their respective counties, private foundations, and non-profit organizations to the homelessness crisis. The program recognizes that homelessness presents both a social
service problem and an affordable housing shortage problem. Since 1985, More Than Shelter has assisted in the creation of more than 750 units, including 114 single room occupancy units. More Than Shelter has also recognized the need for transitional housing facilities, with an active social service component designed to help residents stabilize their lives. The program is also responsible for a temporary homeless shelter in Minneapolis. Support for the program is community-wide, with more than sixteen private corporations and eighteen non-profit organizations having made donations. (Conference of Mayors 1989:37)

To date, most recent local efforts in the U.S. to create affordable housing have focused on developing projects that can succeed within the housing markets of lower income communities where achievable rents are $350-$400. Such rents are affordable to families earning approximately $14,000-$16,000 assuming they are able to spend 30 percent of their income on rent. Most communities have yet to resolve whether their housing production programs can and should focus on serving this market or very poor households with even less income. Because deeper subsidies are required to house very low-income households, and, with limited subsidy sources available, fewer units can be produced. Programs which shelter the homeless present the greatest financing challenge since many of the homeless can pay nothing or almost nothing for housing, and therefore, require very deep or full housing subsidies. (Pickman 1986:22)

2.2 Expansion of Community-Based Development

In the absence of for-profit developers or federal housing programs, nonprofit housing developers and community development corporations have become important vehicles for creating low-income housing in the new production system. Today, throughout the U.S. there are approximately 2,000 CDCs. It is estimated that 125,000 units of housing have been built by nonprofits or CDCs. (Nenno 1988:107)
Shabecoff (1987:106) describes the Community Development Corporation as a "neighbourhood victory," springing as they most often do, from a strong political base within the community. They have typically shown a strong sense of commitment and sensitivity to the specific needs of different populations and the need for physical proximity to social services when selecting, structuring and implementing projects. (Pickman 1986, Greer 1988)

The priorities of a CDC differ dramatically from those of a for-profit developer. They are not constrained in their choice of projects by the anticipated return on their investment or future appreciation, but instead, are free to use more innovative designs and keep long-term affordability in mind. In addition, many CDCs work to open the development process to the community and include residents when defining the scope, design and location of a proposed project. (Pickman 1986:11)

The major benefit of the nonprofit form has been its flexibility, allowing a vast range of initiatives to be created using newly emerged forms of capital and cost reduction techniques. (Shabecoff 1987, Nenno 1988, Stegman 1987) In some of these cases the nonprofit form has been used to create a new institution to unite the private and public sectors in a joint venture to serve their mutual interests. In others, it was needed to coordinate the investment of public and private dollars or to create a more conducive climate for private investment. In still others, it was used as a vehicle for expediting governmental processing of development proposals and securing needed approvals from public agencies. (Nolon 1983:14)

The potential role CDCs may play in developing affordable housing is limited, however, by their access to adequate equity capital. Where the CDC is able to take an equity position and share the risk to advance a project it performs all the normal functions of development. Without access to adequate equity capital, a CDC's role is limited to that of a project facilitator, under contract to a public agency or private
firm to operate one or more discrete programs designed by the contracting agency or funding source. (Nolan 1983:18)

The projects financed by CDCs often require complex structuring of resources, largely, as Pickman (1986:12) notes, because no single resource is adequate to finance an entire project. For this reason the leveraging of scarce resources into higher production by garnering outside resources, or doing more with less, has become a popular entrepreneurial strategy among CDCs and local governments. (Christensen 1988:18)

While nonprofits are continuously seeking new revenue sources to expand the range of their activities they are often dependent on peoples’ charitable instincts for funding using donated materials, services and labour, for example, to reduce housing costs or using investments from individuals based on their willingness to accept a "modest return" on investment. (Nenno 1988:109)

While the number of CDCs has grown dramatically over the past decade, their capacity to produce units in volume has been widely criticized. (Pickman 1986, Greer 1987) This lack of capacity is usually attributed to the difficulty CDCs have in attracting and keeping staff capable of managing technically demanding programs and maintaining a long-term stability, as a result of their limited operating budgets.

To address this problem, many communities have found it cost effective to establish and support a continuing local technical assistance organization rather than support a costly in-house staff. (Pickman 1986:29) In Chicago, for example, the Department of Planning under the Neighbourhood Partnership Program, arranges for real estate developers and businesses undertaking major downtown development projects to donate technical services to community development projects. The first round of technical assistance negotiated covered an estimated 2,200 hours of such services as advice on marketing, the preparation of market and feasibility studies and training on local packaging and construction management.
In a related but separate program, the Chicago Equity Assistance Corp. (CEAC) addresses the problem of CDCs' lack of technical savvy by providing detailed technical assistance, packaging developments for syndication, and by brokering the development deal. (Nenno 1988:21-23)

In Boston an umbrella organization, the Boston Housing Partnership (BHP), orchestrates the activities of all the key actors in the development process who are needed to make high-volume delivery of low-income housing possible without large federal subsidies. (Stegman 1987:103) The acknowledged leader of this approach, the BHP involves a consortium of private, community, and government leaders, whose board includes the directors of major banks, nonprofit CDCs, and top government officials. Through BHP, in a $38 million project, 10 nonprofit groups have renovated 700 units of low-income rental housing. (Flynn 1987:238)

In New York City, the New York Community Trust takes a different approach and provides funding for CDCs to hire consultants and other professionals directly.

In addition to locally based entities, several national organizations also provide technical support services to CDCs. These services range from the direct assistance and grants to hire consultants offered to CDCs by the Local Initiative Support Corporation (see below) to the legal services and advice on equity syndication offered by the National Housing Law Project to the training and technical assistance offered by the Trust for Public Land to CDCs to help them acquire property at the lowest possible cost. (Pickman 1986:31)

This goal of increased capacity, however, has raised a discussion within the industry which questions whether an increase in the size of nonprofits or CDCs will force them to sacrifice some of the qualities they value the most such as local accountability and control or the balance between social and business objectives. The Bridge Housing Corporation, founded in 1983 to service the San Francisco Bay area, has moved beyond charity work and into the mainstream of housing
development. Highly dependent on its $5 million development trust fund (capitalized by corporate donations and land development profits resulting from density bonuses) Nenno (1988:111) describes its production goal of 1,000 units as one of the most ambitious in the country.

2.3 National Intermediaries

National assistance organizations such as the Enterprise Foundation or the Local Initiative Support Corporation (LISC) play a critical role in the success of the new housing production system both by working to meet the special needs of CDCs and linking local efforts around the country. These national organizations have shown that private charitable funds can be raised on the national level for the purpose of supporting community-based revitalization. The Enterprise Foundation and LISC perform an intermediary role. Neither are the original source of financing nor the ultimate developer, but instead, both play critical brokerage and other roles by assuming the responsibility for identifying projects, assessing and bearing investment risks and/or building development capacity within a community. (Pickman 1986:20)

Despite the successes of these national intermediaries in facilitating the production of low-income housing, a recent book published by The Ford Foundation (1989:44) cautions that "housing needs are too vast to be met directly by foundations," and that "from a sheer production standpoint, the number of units that should be built or rehabilitated is beyond the resources of all foundations combined."

Founded in 1981 by developer James Rouse, the Enterprise Foundation is a national nonprofit organization dedicated "to help the poor help themselves to decent, livable housing, and out of poverty and dependence into self-sufficiency." (Stegman 1987:99) The Foundation network includes 70 nonprofit groups in 27 cities and has produced 5,000 units. (Greer 1987) In addition, the Foundation operates a
Rehabilitation Work Group to provide training in the various aspects of housing rehabilitation and maintains a string of eight Neighbourhood Development Centers to help develop local CDCs' technical and financial skills. The Foundation is primarily funded by the profits of the Enterprise Development Company, a for-profit subsidiary, and donations from foundations and corporations. (Nenno 1988:58)

In general, the Foundation works with nonprofit groups to reduce the cost of financing by providing capital in the form of grants and loans to help finance the acquisition and rehabilitation of housing. In 1986, through another for-profit subsidiary, the Enterprise Social Investment Corporation (ESIC), the Enterprise Loan Fund was launched as a demonstration program in Baltimore, Maryland. The idea was to pool short-term, low-interest (less than 6%) loans from foundations, religious organizations, and individuals to provide long-term, low-interest loans to nonprofit groups to finance housing for the very-poor. The fund includes two accounts. One accepts deposits of $10,000 or more at interest rates between 0 and 6 percent, while the other accepts deposits of at least $500 from individuals at 3 percent. By the end of 1986, $3.4 million had been raised at under 4 percent interest and $400,000 had been committed to nonprofits. (Nenno 1988:58)

Advocating a comprehensive approach to community development, the Foundation encourages community residents to organize and participate in the management and maintenance of housing properties as well as in establishing and maintaining job training, health and recreational programs.

Founded in 1979, with initial capitalization from The Ford Foundation the Local Initiatives Support Corporation (LISC) is another important national, nonprofit lending and grant-making institution. With the assistance of major insurance and banking companies, LISC helps CDCs to draw new public and private/public resources into their efforts to revitalize local communities by offering technical and managerial assistance, by structuring investments to leverage other community funds,
by helping to secure government loans and grants and by providing core support grants up to a maximum of $50,000. (Stegman 1987:99) Five hundred CDCs have received assistance for housing—including the construction and rehabilitation of 14,000 units—and other physical and economic development projects. (Greer 1988:59) In addition, LISC's investments have triggered $580 million of matching funds for community development projects. (Nenno 1988:60)

In 1987, LISC created two new corporations to expand the amount of capital available for investment in its target areas. The first, the Local Initiatives Managed Assets Corporation (LIMAC) was capitalized with $10 million from four insurance companies and the Ford and MacArthur Foundations and has started selling groups of seasoned loans from its portfolio to charitable investors. (Nenno 1988, Pickman 1987) The second corporation, The National Equity Fund, was established by LISC as a real estate investment fund to finance nonprofit housing projects in selected target cities. (Nenno 1988:60)

2.4 Public/Private Partnerships (Joint Ventures)

In the new housing production system the rise and institutionalization of public/private partnerships and joint ventures to help finance and package low-income housing projects is, to quote Stegman (1987:97), "the most significant and potentially far-reaching low-income housing innovation at the local level."

A survey of the literature on partnerships revealed little systematic information. Instead, the reader is struck by the variety of approaches used to organize partnerships and how they can vary in legal status, permanence, public visibility and membership. For example, a partnership may be project-based, set up simply to take advantage of the availability of an experienced organization to accomplish a short-term project (dissolving and reforming around new project possibilities), or, it may be permanent and program-based, like the Boston Housing Partnership, which has
ongoing resources and a formal organization. It is not an exaggeration to say that a partnership, of some kind, is involved in virtually every local low-income housing initiative. Even the creation of a community development corporation represents the forging of a partnership using the flexible nonprofit form to accomplish together what the partners could not accomplish individually. (See APPENDIX A-3)

There is agreement in the literature that because partnerships create a more coordinated and sustaining vehicle for private investment in low-income housing, they represent a valuable arrangement for increasing the capacity of CDCs—supplementing, as they do, the traditional areas of CDC weakness and filling the financing gaps inherent in the low-income housing field. (Nenno 1988, Hanson 1987, Stegman 1987, Nolon 1983)

To Shabecoff (1987:110), local government is central to program-based partnerships (less so to project-based) and critical to their producing housing on a large scale. If a conscious decision has been made at the local level to use neighbourhood groups as full partners, she believes that local government can improve their likelihood of success by four means:

1) creating strategic plans with the full involvement of organizations representing the affected communities;

2) designing ordinances and programs that require the private sector to work in true partnership with the community sector;

3) providing a full range of capacity-building support mechanisms for community-based organizations; and

4) developing pools of financial resources for neighbourhood participation.
An example of just such a program-based partnership is Chattanooga Tennesse's Neighbourhood Enterprise. Through a partnership which includes participation from city, county, state and federal governments, private foundations and corporations, the City of Chattanooga is striving to eliminate substandard housing as a major community problem. To achieve this objective the organization provides a comprehensive range of programs which includes: the provision of purchase and rehabilitation loans at affordable rates and terms; the acquisition, renovation and management of low-income rental housing; the provision of technical assistance and consumer counselling; liaison with other community organizations, to meet the special housing needs of the city. The formation of the partnership has allowed the city to generate four times more funding for affordable housing than it could have produced alone. (Conference of Mayors 1989:17)

2.5 Summary

This chapter has described the low-income housing delivery system which has emerged over the past decade from grass roots efforts in communities across the United States. A delivery system that is dependent on the actions of local governments and nonprofit housing developers.

The chapter discussed the steps that many local governments are taking to deal with some aspects of their local housing problem such as striking a task force to assess the nature and extent of the local problem, identifying new revenue sources, and designing housing programs which address specific local needs.

Finally, the chapter discussed problems such as a lack of technical expertise or an inability to access adequate equity capital which restrict nonprofit developers' capacity and prevent them from producing low-income housing in a higher volume.
Chapter Three discusses innovative local responses to such problems as abandonment and gentrification in the face of spiralling development costs and dwindling federal housing subsidies.
CHAPTER THREE

Responses to Problems in the Development Process

Communities which choose to address local housing problems such as abandonment, displacement, and affordability must do so in the face of spiralling development costs and shrinking federal assistance. Virtually every housing ingredient—land, materials, labour, money, and utilities—is continuing to rise in price. With limited resources communities have found that new construction is not always possible and have developed instead, cost effective ways to acquire and rehabilitate abandoned buildings, assemble and prepare sites for development, reduce the costs of development, and maintain rents at an affordable level.

This chapter reviews recent municipal initiatives which preserve, build or facilitate the building of affordable housing. It describes local use of such methods as historic preservation, housing receivership and urban homesteading to reclaim aging or abandoned inner-city housing. This chapter also discusses efforts by communities to stop displacement due to gentrification or demolition through direct acquisition or government regulation. Finally, this chapter surveys local attempts to reduce costs at each stage of the development process.

3.1 Acquisition of Vacant or Abandoned Housing

In most larger U.S. cities, despite a scarcity of decent affordable housing, whole neighbourhoods of rental apartments have been allowed to deteriorate and subsequently to be abandoned by landlords in the face of declining profitability. Such abandonment jeopardizes the shelter security and safety of low income tenants, contributes to neighbourhood debilitation, and through neglect, increases the costs associated with the rehabilitation of the structure. The literature offers the following
three innovative methods for saving affordable housing: historic preservation, housing receivership, and urban homesteading.

In Cleveland, Shabecoff (1987:106) points to the efforts of the Near West Housing Corp. which turned an abandoned historic building into 18 units of housing and four storefronts as an example of the successful use of historic preservation as a tool to save affordable housing. Financing for the project came in part from syndication involving historic preservation tax credits as well as grants and loans made available by the Inner City Ventures Fund of the National Trust for Historic Preservation. She notes that between 1981 and 1987, 1,200 units of housing were produced with the support of the fund.

Where enabling legislation is in place, housing receivership offers a relatively quick intervention by which a deteriorated and/or abandoned property can be placed in the hands of a receiver, either public or private, to make needed repairs and manage the property. Expenses are paid from the building's profits and any shortfall constitutes a lien on the property. Refusal by the owner to satisfy the receiver's claim results in the receiver foreclosing the lien and assuming ownership of the property. (Listokin and Aliewelt 1985:21)

Under the Ohio Receivership Law, Pickman (1986:35) notes, CDCs and other qualified entities may be appointed as receivers to undertake the rehabilitation of properties. By allowing tenants or neighbourhood groups to act as receivers, receivership serves as an important property rehabilitation and management training vehicle.

Despite its advantages, a survey by Litokin and Allewelt (1985:22) found that the receivership method of preserving affordable housing has experienced limited usage. Many communities have experienced legal and administrative uncertainties with the receivership process or are afraid of the financial consequences that might result.
More often, municipalities turned to traditional remedies like code enforcement and tax foreclosure to deal with problem buildings.

In New York and Boston urban homesteading programs have been used successfully to reclaim aging inner-city housing and to revitalize declining neighbourhoods. (Gilderbloom 1988, Leavitt 1988, Sumka 1982) Broadly defined by Sumka (1982:104) as the cooperative renovation, ownership and management of a multifamily building by its residents, homesteading efforts have been adapted to suit local housing conditions. Some efforts have focused on city-owned abandoned property and relied almost exclusively on self-help rehabilitation while others involved the purchasing of property from private owners with the repair work done by unskilled trainees from the neighbourhood but supervised by professional labourers. In most projects ownership is achieved either through a resident cooperative or by a community-based nonprofit organization with management by a tenant cooperative.

To cope with the fiscal and managerial burdens the widespread housing abandonment of the 1970s placed on the City of New York, officials developed a variety of innovative institutional arrangements to both administer and facilitate the transfer of ownership from the City to tenants of some of its worst housing. With a receivership statute in place, under the Division of Alternative Management (DAMP), a unit of New York City's Department of Housing Preservation and Development (HPD), a set of programs were established to transfer management and ownership from the city to tenants (Tenant Interim Lease, TIL), to nonprofit community-based organizations (Community Management Program, CMP), and to private landlords the City screened for past management practices (Private Ownership and Management Program). Between 1979 and 1984 these programs accounted for sales of 5,718 units in 218 buildings with tenant associations buying over half the units through the Tenant Interim Lease program. (Leavit 1988)
Apparently, Leavitt (1988:490) notes, available funds, not demand, limited the number of TIL contracts with tenants.

Because self-help labour and the elimination of profit and overhead through cooperative ownership and management could only go so far, considerable "piggy-back" subsidies were required to keep the operating and carrying costs of the project at an affordable level. Since the mid-1970s New York City has spent $30 million a year on ownership transfer programs.

While urban homesteading programs do have the potential for putting low-income housing back on the market the involvement of local governments, technical assistance groups and committed community-based organizations are critical to their success. (Sumka 1982, Leavitt 1988) Typically, such projects take an exceptionally long time to complete, due to the time consuming nature of sweat equity (where volunteers work when they can), and require strong indigenous leadership to reinforce and maintain tenant participation. (Leavitt:490) Leavitt and Saegert's study (1988:489-500) of tenants' responses to landlord abandonment in New York City's Harlem neighbourhood found the problem-solving and leadership styles of women, in particular, were key to the successful cooperative rehabilitation of their abandoned buildings through the TIL and CMP programs.

In New York City the Urban Homesteading Assistance Board (UHAB), which Sumka (1982:105) describes as a "trend-setter in multifamily homesteading," provides technical skills and support to community-based homesteading organizations by training leaders from landlord-abandoned buildings in management and cooperative living.

In Chicago a different approach is taken to cope with the problem. Instead of waiting for abandonment to happen, the Housing Abandonment Prevention Program focuses on early intervention. Under the program ten neighbourhood groups are empowered to identify troubled buildings and work with property owners, the city,
and the courts to correct dangerous conditions that might cause the building to be vacated and subsequently abandoned. (Stegman 1987:186)

3.2 Property Acquisition to Prevent Displacement

The gentrification of downtown neighbourhoods is a common phenomenon in many larger American cities. While revitalization brings with it benefits such as new commercial activity, increased investment and improvements to the housing stock, it also serves to drive up rents and property values making housing unaffordable and displacing long-time residents. To preserve vulnerable segments of private market housing from being demolished or converted to other uses some communities have created antidisplacement programs which work to acquire a significant volume of housing in a timely manner. (Pickman 1986:35) In other communities, local governments have increasingly regulated private sector development activities through anti-demolition and anti-conversion ordinances prohibiting owners of marginal property occupied by vulnerable populations from converting or demolishing their units. (Legates 1988:193)

In Washington, D.C. for example, Jubilee Housing Inc. acquires and rehabilitates housing for very low-income people in neighbourhoods where rental housing is becoming unaffordable or being converted to up-scale condominiums. To make the acquisition of housing in a rising real estate market possible Jubilee has had to use innovative financing strategies and cost cutting measures such as volunteer labour in building renovation, management and maintenance and by limiting the scope of its rehabilitation to the minimum level required to keep the buildings safe, structurally sound, clean, and efficient to operate. In addition, Jubilee depends on the pro bono services of attorneys and other professionals for technical advice and the grants and no- or low-interest rate loans solicited from socially motivated individuals, corporations and foundations. Four members of Jubilee's permanent staff are
actually employees of local corporations that pay their salaries and provide fringe benefits which helps to cut Jubilee's operating costs. (Pickman 1986:185)

What sets Jubilee apart from other nonprofit organizations is its operating philosophy which views housing, not in terms of units, but as an organizing tool to lift residents in its buildings out of poverty. Not only are tenants involved in building management and maintenance but with the help of a variety of social services such as job counselling and placement, health care and child care, they are assisted in taking control of their lives. The organization's nonprofit employment agency, Jubilee Jobs, places almost 700 tenants and other neighbourhood residents in entry-level jobs each year. (Pickman 1986:184) Jubilee's philosophy and many of its programs have served as models for the Enterprise Foundation's activities.

The complex and time-consuming process of structuring funding for low-income housing projects often makes a quick purchase to protect lower income housing from conversion impossible for a nonprofit group or CDC. The Trust for Public Land (TPL), in addition to its technical assistance to CDCs to assemble and acquire property, acts as a land bank buying and holding properties to ensure necessary site control for as long as eighteen months on behalf of community-based nonprofit organizations or public agencies while these organizations raise funds to buy the property from TPL. (Pickman 1986:347)

With the decline in federal subsidy resources for new construction of affordable housing the preservation of existing affordable units has become a high priority for many local governments. The imposition of demolition and conversion controls, which Legates (1989:296) describes as a "local government backlash against federal housing privatization," works to protect the rental housing stock, controlling the demolition or conversion of rental units to condominiums and the demolition or conversion of single-room occupancy hotel units. To compensate owners for the imposed restrictions on the use of their buildings, local governments have made use
of some combination of fee or less-than-fee interest, provision of tax breaks, or use of development rights. Legates (1989:199) points out that while these measures serve to spread the cost of maintaining a community resource from individual property owner to the community the problem of providing revenue to maintain that use and long-term affordability remains.

Demolition and conversion regulations vary from community to community. For example; the District of Columbia, to protect its rental stock from conversion, prohibits conversions altogether when rental vacancy rates are below a specified percentage; San Francisco, on the other hand, requires that 10 percent of converted units be set aside for rent or purchase by low-and moderate-income households at below market rates; Oakland requires a converter to add a new rental unit for each unit converted; and Los Angeles requires converters to pay $500 a unit for each unit converted into a trust fund for low-and moderate-income housing. (Legates 1989:196)

Rent stabilization is another strategy used by local governments, with varying success, to protect affordable housing units and gain control over a community’s private rental housing stock. (Keating 1986, Legates 1989, Neibank 1986) In general, U.S. rent stabilization ordinances establish a base rent for a unit and limit across-the-board annual rent increases to some percentage of the base rent and may be tied to a formula which allows a percentage increase tied to the Consumer Price Index (CPI) or some other factor. Programs may or may not impose controls on the rents of vacated units. (Achtenberg 1984:17) American rent stabilization ordinances cover rental units regardless of rent levels and have no means test for admission to controlled units making them poorly targeted.

In Boston, vacancy decontrol has increased the affordability gap for renters and has caused major problems for the regulation of controlled units. In what is essentially a dual housing market, Boston landlords rely on vacancy decontrolled units (instead of the rent control system) to maximize rents and recover, what they
term "a reasonable return on their investment." In addition, the existing rent grievance system, which allows special tenant constituencies to contest rent increases in excess of the CPI, affords little meaningful protection to tenants or to the housing stock as many eligible tenants are reluctant or unable to exercise their grievance rights in a timely manner. (Achtenberg 1984:iii)

The National Association of Home Builders (1986:81) advocates the removal of rent controls and argues that their anticipation or existence suppresses rents making investment in such housing uninviting and ultimately restricts the supply of affordable housing.

3.3 Site Preparation Programs

With few large parcels of land still available for development in inner-city neighbourhoods, site control and preparation have become complex steps in the development process of low-income housing often requiring the assembly of many small sites.

Pickman (1986:36) has identified two innovative programs which work to "convert an unusable asset--either land or buildings--to a productive asset by providing some or all of the following services: site assembly, provision of public infrastructure, obtaining land use and building permits, predevelopment funding, and provision of subsidies to make development feasible." In San Francisco, BRIDGE acquires sites and obtains public approvals for development projects that are carried out by other organizations. In New York, the Housing Partnership Development Corporation attracts private developers to build on city-owned parcels by assembling parcels for development, making certain infrastructure and site improvements are in place, and absorbing many of the predevelopment costs and risks. (Pickman 1986:37)
3.4 Low-Cost Design Approaches

With the high cost of development often a community's single greatest impediment to providing affordable housing, the search for solutions often extends outside the traditional boundaries of low-income housing design. (Pickman 1986:37) Three innovative approaches, shared housing, rehabilitation and adaptive reuse, have emerged to create housing that is less costly to build and to operate.

The literature reveals the widening acceptance of single room occupancy units (SROs) as a low-cost alternative appropriate for certain populations. The SRO hotel has proven to be a flexible building type easily altered for a specific population, such as the chronically mentally ill, the elderly, single men or women, or families. Greer (1988:61) notes that in certain cities--New York, Boston, Los Angeles, San Francisco and Seattle--the renovation of former flophouses or fancier residential hotels into SRO hotels is well established and building codes have been rewritten to accommodate this type of housing.

While traditionally used as transitional housing, developers in a downtown Seattle neighbourhood have recently adapted the building type, in the Marvin Gardens Inn project, to provide permanent rental housing for single persons working downtown. The project's rooms, which are small and spartan by middle class standards, range from 180 to just under 400 square feet and include a complete bathroom and a counter kitchenette. Because the developers received a tax credit for building low-income housing, 60 percent of the project's units are rented to individuals whose income is at or below $16,700 a year. In addition, the project cannot be sold for 15 years.

The City encouraged the development and allowed developers to construct smaller units than the code currently allowed in exchange for usable common areas such as the rooftop garden and an attractive lobby. Since the project's initial approval the City has drafted a more comprehensive set of standards for small
downtown living units. While the future of such projects is uncertain the Inn has raised questions within the community about what is livable, what is affordable and how much of either is possible together in a private development. (King 1990:C1)

Rehabilitation to conserve the existing housing stock has proven to be more cost effective than new construction for many communities. Programs are usually initiated by the local government but a nonprofit organization may be contracted to operate them. The actual rehabilitation process is often quite complex involving homeowners or landlords, housing advisory committees, contractors and lending institutions as well. (Roudebush and Wells 1980:1)

Housing rehabilitation programs cover a broad range of conservation activities from consumer education to code enforcement to financial assistance. Some communities have implemented rehabilitation education programs in which housing counselling or resource centers are established to provide "how to" information to persons interested in upgrading their property. Services typically include written manuals, training workshops, and management assistance for actual rehabilitation jobs. Expansion of the housing rehabilitation workforce is the goal of other programs; training members of target groups in rehabilitation techniques serves, as Roudebush and Wells (1980:3) point out, the multiple objectives of lowering the cost of the work to owners, increasing the number of workers with housing rehabilitation skills, and providing employment opportunities.

Other communities have adopted special approaches to code enforcement either by requiring mandatory code inspection as a condition for obtaining an occupancy permit or by requiring a landlord security deposit that could be used by the community to correct serious code violations. (Roudebush and Wells 1980:10)

Local rehabilitation financial assistance programs have proliferated over the last ten years with some communities choosing to offer rehabilitation loans to residents of target areas with interest rates based on a sliding scale, while others have chosen to
offer financing at extended terms and below-market rates. (Roudebush and Wells 1980:14) In San Diego, for example, the San Diego Housing Commission offered reduced interest rate loans, with rates as low as 6.5 percent for 15 year amortized loans, to owners of residential rental property for property improvements. The below rate interest loans were made possible through creative leveraging of funds from a local private financial institution and federal programs. For each public dollar placed on deposit, six dollars of bank loans were made available to property owners. The Journal of Housing (V.43, N.2 1986:81) reported that, as of 1986, 2,500 rental units and single family homes were rehabilitated. (No program start date was given.)

The report by Los Angeles’ Blue Ribbon Committee for Affordable Housing (1988:28) warned against the use of rehabilitation programs which offer only shallow subsidies without rent restrictions. While such programs improve properties they usually result in higher rents and tenant displacement. Instead, the Committee recommends a loan program which provides deep subsidies and guarantees long-term affordability. The Committee (1988:15) suggested that all City housing programs requiring significant public resources should make long-term affordability, defined as 30 years or more, their primary objective.

While not widely reported on in the literature, partial rehabilitation as practiced by Jubilee Housing, where building renovation is limited to a minimum level, can be a cost effective alternative to preserve existing low-income housing stock. Greer (1987:69) notes that in 1987 a full renovation requiring a building permit committed a developer to spending approximately $40,000 while a partial rehab. would run from $15,000 to $35,000 and would involve least-cost, high-value techniques such as roofing, drywall fastening, caulking and painting. Some communities have adopted a special rehabilitation code with specific guidelines, procedures, or codes that allow rehabilitated housing to meet standards that are more appropriate to rehabilitation than new housing. (Weitz 1982:8)
Finally, the adaptive reuse of structures originally designed for manufacturing, as schools or other institutions, has provided communities with the opportunity to increase their numbers of affordable units without the costs associated with new construction. In Boston, a nonprofit group named Shelter Inc. provided transitional housing for homeless families through an innovative conversion of an historical brownstone which involved using a flexible panel system to define interior space. (Fodor and Grossman 1989:213)

Another example of adaptive reuse is The Ravenna School Apartments, a 75 year old vacant school rehabilitated in Seattle to provide 39 affordable housing units for senior citizens and handicapped/disabled persons through the Seattle Senior Housing Program. The project won a 1987 national design award for Design Excellence from the National Association of Housing and Redevelopment Officials (NAHRO). This interesting combination of rehabilitation and new construction created rental apartments with features not available in many new buildings such as high ceilings, large windows, individual apartment design, and a brick exterior. (Battle 1989:241)

Across the country, many nonprofit developers have begun to experiment with manufactured, or prefabricated, housing as a way to reduce the cost of production in urban areas. (Pickman 1986, Ford Foundation 1989) Alternative housing has also been explored. A growing "shared housing" movement serves as a broker between the space needs of some and the income or service needs of others, many of whom are older homeowners. (Shabecoff 1989, Ford Foundation 1989) Several CDCs are experimenting with cross-subsidy development projects where the profit from market rate units is used to write down the cost of units for low-income residents. There has also been a growth in European-style limited-equity cooperatives or mutual housing associations, which puts a ceiling on the gain that co-op shareholders can realize from the appreciation of their units, to maintain their affordability. Any "profit" upon
sale goes into a pool for developing additional units or subsidizing current ones.

(Shabecoff 1987:108)

3.5 Changing Development Standards and Streamlining the Approval Process

It is widely recognized in the literature that unnecessary regulations and delay in the public approval process adds to the development cost of housing, and therefore, works against the provision of affordable housing for low-income families. (Pickman 1987:37, NAHB 1986:77-83, Sanders and Mosena 1982, Weitz 1982) According to an American Planning Association survey conducted in 1981 of local residential development standards, many communities had already made changes to the substance of their zoning and subdivision ordinances and to the speed of their permit approval process. (Sanders and Mosena 1982:1)

In communities where the supply of developable land has been constrained significant changes to allow more permissiveness in density and related standards such as setback, frontage, and yard requirements have been made. Common techniques for increasing permitted density include the following:

- **upzoning** within a targeted neighbourhood to encourage a variety of housing types and to allow for moderate increases in residential density;

- **flexible zoning** to allow an increase in density as an automatic option in all residential zones in exchange for the developer’s provision of a specific amenity or number of affordable units (inclusionary zoning);

- "**zero lot-line zoning**" to encourage better use of small lots by allowing detached houses to be built right up to one or two sides of a rectangular lot;
- reducing minimum setbacks from the right-of-way line to make small lots more usable;
- allowing substandard lots to be developed either through an ordinance amendment or on a liberal case-by-case approval of zoning variances;
- allowing accessory dwellings to be added to single family homes. (Weitz 1982:4)

The APA survey found that among the 127 communities reporting a relaxation in density requirements, Seattle had instituted perhaps the most flexible set of standards for multifamily housing. In its revised set of standards, Seattle had eliminated requirements for minimum lot area per unit for multifamily development in favour of bulk regulations.

Recognizing that the use of innovative construction techniques by developers can yield substantial savings in construction costs without sacrificing safety many municipalities have either amended their building codes or adopted one of the nationally recognized model codes to allow the use of such less expensive products and procedures as plastic pipes, preassembled plumbing systems and 7 1/2 foot ceilings, among other things. (Weitz 1982:8)

In an effort to reduce delay and uncertainty and increase efficiency in both the public and private sectors a number of communities have sought to streamline their administrative procedures and decrease the time required for approvals at the various development review stages. For example at the "preapplication stage," some communities have consolidated various permit issuing departments into a "one-stop shop" set up either to provide the public with elementary guidance on application procedures or to receive and process applications, monitor their status, and collect fees. While at the "staff review stage" some communities have appointed an overall permit expeditor, or troubleshooter, with the authority to resolve problems and
reduce delay. At the "decision stage" communities are reducing the number of hearings required by consolidating zoning and site plan approval in the same hearing and delegating final responsibility for public hearings and approval from the council to the planning staff, or both. Finally, some municipalities have trained building inspectors to inspect for almost all structural, mechanical, electrical and public works standards during a single visit, thus eliminating separate inspections. (Weitz 1982:11)

Demonstration projects have shown that it is possible to reduce housing costs with regulatory reform. In 1982 HUD sponsored the Joint Venture for Affordable Housing which encouraged communities that had shown an acceptance of reduced regulations to create innovative affordable projects through a public-private partnership that did not involve federal funds for either the builder or the community. Both HUD and the NAHB Research Foundation did, however, provide expertise in identifying cost-reducing techniques and in innovative site planning.

One major demonstration carried out as part of the Joint Venture was the Cimarron project near Phoenix, Arizona. This infill project built 107 townhouses and 148 detached homes with cost savings of $8,039 per unit achieved under the demonstration. Savings of $2,198 were gained by introducing a single construction permit system which eliminated the need for four separate permits and by eliminating off-site bonding requirements. Another $3,676 per unit was saved in land development and $2,165 per unit in building design and construction. (NAHB 1986:82-83)

3.6 New Technologies and Practical Advice

The Enterprise Foundation through its Rehabilitation Work Group and a network of community design centers located throughout the country provide nonprofit groups and CDCs with important on-site technical advice on achieving economies in construction. To help build capacity the Work Group assists in
developing specifications, selecting and negotiating with contractors, and monitoring contractor's performance and progress payments. (Pickman 1986:38) In some cities the centers have become community design advocates believing that communities have a right to participate in the planning of their own environment. Services provide by the centers include professional and technical support ranging from information on funding resources, to management know-how and design assistance. (Greer 1989:59) Since the Reagan cutbacks to housing programs, support for the centers from the architectural profession has declined and many have closed. (Boles 1988)

3.7 Reducing the Cost of Labour and Materials

Sweat equity and donated labour are strategies used by communities to reduce the cash costs of renovation and construction. In sweat equity projects, where residents' labour is used to help build or renovate the housing they occupy, the amount of work performed varies greatly among programs and properties, and depends on the nature of the work required and how much skill and time the residents have. (Pickman 1986:39) In general projects dependent on sweat equity, such as urban homesteading, are slow to reach completion and often require a year or more of full-time, but unpaid, construction work. (Kolodny 1986:449) To address the relationship between jobs and housing, employment programs which offered modest hourly wages to workers, and helped to pay for instruction, construction supervision, and organizational overhead, were grafted onto such housing programs.

In Salinas, California Self-Help Enterprises organizes groups of low-income families that work together to build their own homes. In Connecticut, the Connecticut Housing Investment Fund provides training, technical assistance, and construction financing to individuals who want to rehabilitate or newly construct houses they will occupy. (Pickman 1986:40)
In addition to labour, Pickman (1986:40) notes, nonprofit developers have learned to utilize a range of free or low-cost resources, from pro bono legal services to building materials and even entire houses. Some interesting examples include Baltimore's Loading Dock, Inc., a nonprofit warehouse that collects and sells donated and slightly damaged building material to nonprofit organizations and lower income individuals at less than one-half of the usual retail price and the Brothers Redevelopment Paint-a-Thon which obtains paint at special low prices for its annual program to paint 100 homes owned by senior citizens in the Denver area. (Pickman 1986:40)

3.8 Summary

Nationwide, strategies are being pursued which address the problems of housing abandonment, gentrification, displacement, and affordability. With available resources for new housing construction drastically reduced most communities have turned, instead, to preserving existing housing units. Chapter Three discussed the use of urban homesteading, housing receivership or historic preservation in communities affected by disinvestment where buildings are being lost to abandonment and neglect. It discussed the creative use of methods such as self-help labour and donated materials, partial rehabilitation, and the adaptive reuse of existing structures in renovation projects to keep costs down and maintain affordability. The chapter noted that many communities have found it necessary to adopt special approaches to code enforcement, relaxing standards to allow the use of alternate materials and innovative designs in renovation projects or increasing densities and lowering site improvement requirements to reduce developers' costs.

Finally, the chapter discussed the use of regulatory measures, such as demolition and conversion controls or rent regulation, by communities experiencing a loss of affordable units as a result of soaring land prices and speculative investment.
Chapter Four discusses the innovative initiatives under way in communities to bridge the financing gap, previously filled by federal subsidies, between a project's costs and the amount of market rate financing the project's rental income can actually support. Such subsidies are necessary to ensure the affordability of rents to low-income tenants.
CHAPTER FOUR
Sources of Subsidy Financing

Assembling the various components of a financing package to build low-income housing, equity, interim debt, permanent debt, and gap/subsidy financing, has become an extremely complicated, time-consuming, costly and often frustrating process requiring both technical sophistication and perseverance. Today, with the assurance of federal subsidies gone, nonprofit developers have difficulty raising the equity investment required for rental housing or tapping private market sources of interim and permanent debt financing without some kind of outside assistance. (Pickman 1986:41-52) In an attempt to bridge the gap between the cost of the housing and the amount of market rate financing that can be supported by rental income, local governments and nonprofit CDCs have sought to increase the effectiveness of current resources, direct more existing general revenue to housing activities and raise new resources. (Pickman 1986:52)

This chapter discusses those innovative initiatives under way to raise the gap/subsidy financing needed to replace lost federal subsidies. Revenue has come from a variety of sources. National social intermediaries have forged partnerships with major corporations and local foundations to provide additional charitable capital. Housing trust funds and community loan funds have been used in some localities to create pools of capital for the development of low-income housing. In other areas, developers of market-rate housing and commercial development projects are being required to contribute to affordable housing goals. While still other areas are using appropriations of general revenue and general obligation bonds to fund housing programs directly.
4.1 National Social Intermediaries

In the past, national social investment intermediaries have had considerable success in obtaining substantial grant commitments from major corporations and local foundations. Increasingly, intermediaries such as LISC and the Enterprise Foundation are seeking "social investment" opportunities where the yield is below market but most of the risk is assumed by the intermediary or another entity. Unlike grants, this type of investment has the potential to generate substantial funds for housing and where those investors are financial institutions, it may be possible to use social investments as a step toward tapping major sources of market-rate investment through the institution's regular business activities.

Typically, intermediaries use these charitable funds to make small project development grants and below-market rate loans with terms of from five to ten years. For example, the National Trust for Historic Preservation makes grants and low-rate loans for CDC-sponsored preservation projects and has established a joint program with the Travelers Companies to provide $1 million in loans for similar projects. (Pickman 1986:53)

Recently, the City of Hartford, CT. and LISC have come up with a plan to use public pension fund dollars to finance the work of CDCs. Through the program, the city's Pension Commission and LISC will make available $1.25 million in low-interest housing development loans to CDCs over the next six years.

The program, called Land Acquisition for Neighbourhood Development (LAND), is believed to be the first in the nation in which public pension funds will be used to support the work of CDCs. As in other cities, Hartford's CDCs have traditionally obtained unused city land and buildings for their projects. But Hartford has disposed of most of such property, so CDCs must now compete for development sites in the open market. The LAND program provides them with the financial resources and flexibility to compete more effectively. (LISC Link 1990:3)
4.2 Housing Trust Funds and Community Loan Funds

The use of housing trust funds has grown widely in popularity through the 1980s—from two in 1980 to thirty-four in 1988. (Brooks 1989:3) Revenues from trust funds range from about $200,000 to $20 million. (Nenno 1990:14) In its simplest definition a housing trust fund is a pool of funds, either from appropriations or from dedicated revenues, set aside for housing development. (Nenno 1988:1) Brooks rejects the use of one-time appropriations by a city council to capitalize a fund and stresses the need for an on-going or renewable source of revenue to create a permanent pot of money. (1989:5)

Trust funds are created by an ordinance or legislation and are usually set up as a separate account outside the general city budget process and administered by an already existing government agency, such as a housing or community development department or agency. Most funds provide grants and loans to nonprofit development organizations, private developers, local governments or individuals to support new construction or rehabilitation of housing for low- and moderate-income households. Typically, housing trust funds have appointed advisory committees which represent a broad range of community interests to provide advice and generate discussion of local needs and priorities before and after the fund is capitalized. Others, ensure public participation after capitalization by holding public hearings at the time they are deciding which projects to support.

Capitalization for housing trust funds comes from both public and private sources. Public sources include taxes or fees. For example, Los Angeles has five major housing trust funds which are financed from tax-increment revenues from three redevelopment projects while a fund in Montgomery County, Maryland is funded by a four percent transfer tax on the initial sales of newly converted condominiums or cooperatives. Tax increment financing, where increased local taxes received from
redevelopment areas are used for housing and community development purposes, is authorized in 35 states and extensively used in California and Minnesota. California law requires that 20 percent of tax increment revenues be used for housing unless findings are made to exempt a redevelopment project from that requirement. (Nenno 1990:17)

In other locations, such as Boston, Chicago, Jersey City, San Francisco and Seattle, local trust funds utilize exactions from private developers. (Nenno 1988:1) In Boston, for example, downtown commercial development is linked to housing affordability (see discussion on linkage below) and developers are required to make a contribution of five dollars for every new square foot of office space constructed. The fund has raised $43 million specifically targeted to low-income housing between 1983 and 1989. (Ford Foundation 1989:35) In addition to revenue generated from linkage programs, housing trust funds can be capitalized from the proceeds of the sale of public land, offshore oil drilling fees, hotel and business fees, dedicated increases in property taxes, fees from demolition of rental housing, and many other sources.

Private funds, such as the interest on sales and mortgage escrow accounts and security deposits, may also be used to capitalize a fund. Grants or contributions from private foundations are other revenue sources, though not on-going ones. (Brooks 1989:6)

Like housing trust funds, the number of community loan funds has grown dramatically in recent years. Of the thirty-five such funds operating in the United States, about half of them were formed in the past four years. Since the mid-1970s the funds have received some $60 million from more than 2,200 lenders and loaned over $40 million to 1,500 community projects with a default rate estimated at less than one percent. (Ford Foundation 1989:36)

Community loan funds are significant for several reasons. First, they represent a vehicle for channelling new sources of funds, primarily from religious organizations
and socially motivated investors. Second, many loan funds operate in locations not
served by LISC or the Enterprise Foundation. Finally, they often work with very
new community groups offering technical assistance and direct loans to projects as a
last resort when all other avenues are closed. By enhancing the technical skills of
these organizations, community loan funds increase the viability of the projects they
undertake so that more conventional financing sources may eventually be tapped.
(Ford Foundation 1989:36)

4.3 General Obligation Bonds

While not a new strategy for raising tax-exempt debt, some states and localities
have begun to issue general obligation bonds (bonds that are backed by general
government revenues) to finance housing programs. If the issuing government
appropriates funds to repay the bond investors and does not look to the project for
bond repayments, general obligation bonds represent a significant opportunity to tap
direct state and local appropriations for housing.

General obligation bonds have been an important source of revenue for housing
programs in New York City. Here funds have been used in a participation loan
program, which combined private market-rate dollars with 1 percent city mortgages,
to produce below-market-rate rehabilitation loans. General obligation bonds have
also been used to rehabilitate city-owned, tax-foreclosed housing. (Stegman 1987:89)

In April, 1988, voters in Phoenix, Arizona, approved the issuance of $37.5 million
in general obligation bonds to provide affordable housing for families, seniors and the
homeless over the next several years. The primary goal of the bonding project was to
allow the city to offer monthly rents that were less than market rents for comparable
units. (Conference of Mayors 1989:13)
4.4 Programs Which Tap Private Development

Over the last decade, municipal governments have developed an array of techniques to tap both commercial and residential development to fund affordable housing. The literature divides these techniques into two categories: 1) inclusionary zoning, a mechanism of land use regulation designed to encourage affordable housing as part of the approval process for residential projects, and 2) linkage, designed to mitigate the adverse impacts of large-scale commercial development by requiring either that developers directly provide affordable housing, or pay an in-lieu fee as a condition for obtaining development approval. (Nenno 1988 and 1989, Stegman 1987)

Inclusionary zoning was originally proposed to counter the discriminatory effects of exclusionary zoning in suburban neighbourhoods. According to Mallach the objective of such programs is "to make development of lower-income housing an integral part of other development taking place in the community, by setting forth either mandatory conditions or voluntary objectives for the inclusion of low- and moderate-income housing in prospective market-rate developments, coupled with incentives designed to facilitate the achievement of these conditions or objectives." (1984:12)

Whether an inclusionary housing program is mandatory or voluntary in nature all programs contain the following elements:

- inclusionary requirements;
- income-eligibility criteria for defining affordability;
- provisions for in-lieu fees;
- pricing criteria for affordable units;
- restrictions on the resale and re-rental of affordable units; and
miscellaneous provisions such as on-site versus off-site construction requirements, transfer of excess affordable housing credits etc. (Stegman 1987:51)

Typically, in an attempt to offset developer's costs, a voluntary program requires developers to meet a stiff set-aside requirement in order to trigger such benefits as an increase in permitted density, a reduction in required site amenities, or a shortened approval process. A mandatory program, on the other hand, usually contains lower set-aside requirements or offers more generous income limits for those eligible for assistance. For example, under Orange County, California's earlier mandatory program 10 percent of all dwellings in subdivisions containing 30 or more units were to be made available to eligible families. Now that the program is voluntary and density bonuses are available to developers a higher threshold of 25 percent must be met to trigger the benefits. (Stegman 1987:51)

Linkage programs, which "coax (or force) developers into doing good while doing well." are described by Alterman (1988:7-8) as an "extension" of inclusionary zoning and exaction programs. Today's linkage program extends the responsibility of developers from supplying or financing such public facilities as infrastructure and parks made necessary by proposed development to include the provision of public needs with services such as housing and social services that are not public facilities.

Like inclusionary housing programs, linkage programs are also classed as mandatory, voluntary or negotiated. Under a mandatory, formula-based program, development fees and low-income housing production obligations are known with certainty at the project's earliest stages. San Francisco's Office/Housing Production Program (OHPP), the earliest and best-known U.S. linkage program, began as a mandatory housing program.

Established in guideline form in 1980, the OHPP was based on the principle that newly constructed office space draws new workers to the city and intensifies the
demand for housing. As pressure on the housing market increases, the price of housing is driven beyond affordable levels. This cause and effect relationship or "nexus", between new development and increased housing needs, was translated into empirical relationships which in-turn set the exaction requirements or in-lieu fees. Adopted formally as a policy in 1981, the OHPP provided linkage guidelines for new commercial projects exceeding 50,000 square feet and located in the central business district. Criticized for their ineffectiveness, the original program requirements for developers were amended in 1985. Under the new OAHPP developers can satisfy their housing requirements in one of three ways, either by:

1) constructing housing directly or by participating in a joint venture to help finance it, at a rate of 0.386 units of new housing for every 1,000 square feet of office development; or
2) by paying an in-lieu fee of $5.34 for each square foot of new office space; or
3) by meeting their housing requirement through a mix of direct construction and payment.

If a developer chooses the last option, the in-lieu fee for each housing unit that is not constructed is set at $13,834.20. Finally, 62 percent of all units produced by a developer must be reserved for households with incomes less than 120 percent of the regional median. (Stegman 1987:65)

In a recent comprehensive evaluation of San Francisco's linkage program, Goetz found that the "specific design features of OHPP provided the city with a "highly efficient housing effort," which "seems to have succeeded in terms of housing production while not "scaring away" office space development." (1989:66) Between 1981 and 1987 the program assisted 4,975 housing units; 3,093 of which were new construction projects. In addition, $27 million in private contributions to housing
have been generated. (Stegman 1987:60) Goetz went on to note that, "contrary to expectations, objections to the program came from housing activists who felt that the program did not go far enough than from developers who felt that the exaction was unfair." (1989:66)

Boston is also well known for its successful mandatory linkage program. While originally modelled after San Francisco's program, Boston's 1983 program goes even further in its effort to connect the benefits of economic growth in its downtown to the needs of its low-income neighbourhoods. For example, Boston imposes linkage requirements on all large-scale commercial real estate developments, including retail businesses and institutional, educational, and hotel projects, as well as office buildings. In addition, the program contains a housing set-aside for the specific neighbourhood that a new development impinges upon most seriously. Although San Francisco's linkage program has been expanded recently to require payments to support child-care facilities, transit improvements, and the arts—Boston, as Stegman notes, is the first city in the U.S. to incorporate a fee for job training into its zoning regulations and linkage program. (1987:65) Finally, a recent amendment to the program, referred to as parcel-to-parcel linkage, ties the approval of development plans for prime central sites to the redevelopment, in tandem with neighbourhood interests, of outlying neglected neighbourhood sites. (Stegman 1987:65)

Mandatory linkage programs have been legally controversial on a variety of grounds. Programs which failed to show a clear link between the purpose of the exaction and the impact of the development or which do not have explicit state legislative authorization have been subject to challenge in the court on the grounds that they contravene Constitutional equal protection and due process requirements or may represent a "taking." (Keating 1986:134, Casale 1989:2)

Where developer resistance to formal linkage programs is strong, communities have opted for a voluntary incentive-based linkage program or have chosen instead to
negotiate agreements, as part of the development approval process, on a case-by-case basis. Miami’s linkage program is a good example of a voluntary incentive-based program. The program grew out of a negotiated agreement between the City and the development community, concerning the housing-market impacts of office development on neighbourhoods adjacent to the City’s expanding central business district. In general, the linkage ordinance provides developers with a density bonus in the form of a higher maximum permissable floor/area ratio (FAR) for office buildings constructed in two "special-interest" districts, in exchange for the direct provision of low- and moderate-income housing, or in exchange for payment of an in-lieu fee. The ordinance provides developers with a choice of building housing or contributing to the City’s housing trust fund. (Stegman 1987:66) Between 1983 and 1987 contributions to the fund totaled $200,000.

Honolulu’s negotiated linkage program demonstrates another wrinkle on the linkage concept. Under this program, the rezoning mechanism is used to negotiate affordable housing agreements with developers and requires that 10 percent of the residential units in a development be set aside for households with incomes of less than 80 percent of the area median. Recently, the concept of community benefit assessments (CBAs) has been introduced into the process to increase its fairness by adding predictability and certainty to the system. An applicable assessment is determined by a formula and is intended to compensate the City for the additional capital costs incurred as a result of the new development. While the CBA sets the developer’s maximum financial obligation to the community under the linkage program, the developer can still negotiate to reduce his financial obligations through the direct provision of various community facilities, such as housing, in lieu of paying the full CBA. (Stegman 1987:69)

As a result of a survey of city officials and community leaders, Casale (1989:3) has concluded that ad hoc agreements negotiated by representatives of the city, the
community, and developers are the most successful linkage efforts. Their flexibility allows continuing adjustments and compromises to be made throughout the development process—a necessary condition for projects that join the resources of organizations with divergent perspectives. One could argue, however, that an explicit program allows for a more open and accountable approval process and provides more certainty for developers.

While linkage programs appear to communities to be a hopeful source of much-needed community services or facilities they have also been criticized as being an "emergency-type" solution or a "limited response" that "sometimes even increases the ill effects of development," although this remains to be documented. (Nenno 1990:15, Casale 1989:3) For example, while allowing residential density bonuses in an area where new development and existing low-income housing are in fragile balance may add incrementally to city wide revenues it might also lead to the loss from displacement of far more affordable units than could be replaced by the funds generated by the linkage program.

Stegman (1987:71-74) suggests that communities should make their affordable housing programs more comprehensive in nature both by expanding their programs' financial bases to include assessments and housing production requirements made of all forms of development and by combining inclusionary zoning, impact fees, and linkage requirements as is practiced in Princeton, New Jersey. A more comprehensive program, Stegman believes, would be less affected by a down turn in office construction.

There is agreement in the literature that linkage policies are not suitable for all communities. (Mallach 1984, Keating 1986, Stegman 1987, Casale 1989) As Keating notes, "most cities lack the characteristics of the cities that have adopted linkage policies." (1986:134) Cities such as San Francisco and Boston enjoy booming downtown development, have recognized that economic growth causes or exacerbes
problems related to the supply of low-income housing, and have a city government and community groups committed to linkage. (Casale 1989:3, Keating 1986:134, Stegman 1987:73)

4.5 Other Innovative Sources of Capital

Recent funding initiatives which draw on large new sources of private sector capital are described by Shabecoff (1987:110) as an "extraordinary breakthrough." The Chicago Equity Fund, for example, forms annual investor' general partnerships to pool capital resources from a broad base of corporate investors. It, in turn, forms limited partnerships with nonprofit neighbourhood organizations to invest in their development projects. (Nenno 1988, Shabecoff 1987)

Aware that deregulation and the trend toward interstate banking drain a community of possible revenue sources for housing development many local and regional community-based coalitions are negotiating reinvestment concessions from financial institutions. The agreement between the Bank of Edgewater of Chicago to make $12 million available for residential and commercial loans is an example. (Shabecoff 1987:110)

In addition, private sector financial involvement is growing among large-scale nonprofit institutions, such as hospitals and universities. Increasingly, these institutions are forging partnerships with local community organizations for housing and business development. In the Oakland neighbourhood of Pittsburgh, for example, both the local hospital and universities have invested in the Oakland Planning and Development Corporation's revolving loan fund to finance the acquisition and rehabilitation of abandoned housing in the neighbourhood. (Shabecoff 1987:110)

An innovative variation on reinvestment is the idea of linking deposits to generate a new revenue source available for housing development. In Lima, Ohio,
the Rehab Project successfully got long-term certificates of deposit placed in a local bank by two orders of nuns from a neighbouring community and from the McCauley Institute, a national housing fund capitalized by a Maryland-based nun's order. In return, Shabecoff (1987:106) reports, the bank had to commit to lending an equal amount, at market rate, to the Rehab Project's housing activities.

A final innovation in funding has seen the use of pension funds to capitalize trust funds for affordable housing. This new use for pension funds is significant in light of the fact that pension funds hold close to $2 trillion in assets in the United States. (Nenno 1988:109)

4.6 Summary

Faced with the withdrawal of federal support for low-income housing in the 1980s many local governments, national social intermediaries and nonprofit housing developers have responded with new approaches to generating revenue. This chapter discussed some of the more promising approaches such as housing trust funds and community loan funds, the use of general obligation bonds, or the use of linkage programs to tap private development.

Experience has shown that a successful linkage program requires a healthy and expanding downtown economy, and therefore, may not be suitable for all communities. Trust funds, on the other hand, offer a community an opportunity to dedicate a pool of funds for housing development and capitalize it from dependable local revenue sources.

PART II Chapter Five provides the background information for the case study of Seattle's downtown municipal housing initiatives.
PART II: SEATTLE'S DOWNTOWN HOUSING PROBLEM

CHAPTER FIVE

Background

Seattle's shortage of affordable housing is a problem that just won't go away and one that over the past decade has only gotten worse. Federal cutbacks of 70 percent in housing aid have served to exacerbate a problem that actually began in the late 1970s as Seattle's economy "romped" back from the Boeing recession with an explosion of growth in the downtown. (Goldsmith and Maier 1990:A6) During this period the demolition of low-income units and the conversion of others from rental to condominium ownership became commonplace doubling rental rates between 1974 and 1980 and creating the lowest vacancy rate since the census began keeping records. (DCD 1980:1)

In Seattle, response to the local housing crisis began at the grass roots level. The late 1970s saw housing advocates work to protect tenant rights and lobby to get the affordable housing issue onto the political agenda. In the 1980s with federal subsidies no longer available to encourage for-profit developers to build low-income housing community groups and social service providers stepped in creating nonprofit housing corporations to ensure that Greater Seattle's critical housing needs would continue to be addressed. In 1986, this trend continued, as Seattle voters approved a $50 million tax levy to build or rehabilitate low-income housing.

In the 1980s Seattle's City Council found itself faced with, as Mayor Charles Royer described it, "this unprecedented area for city government: building new housing for people." (Goldsmith and Maier 1990:A1) To meet this challenge new local revenue sources were identified and new programs were developed which
targeted Seattle’s downtown and made the preservation and production of low-income housing there a priority.

This chapter provides a profile of Seattle’s four downtown residential neighbourhoods and describes the nature of this community’s housing crisis. It briefly describes the evolution of the City of Seattle’s Housing programs since the decline in federal level housing support and attempts to set their effectiveness within a broader political perspective. Finally, this chapter identifies the major players in Seattle’s low-income housing production system and discusses their individual roles.

5.1 A Profile of Seattle’s Downtown Neighbourhoods

Over the past decade Seattle’s downtown has become a regional Mecca for financial, commercial and governmental activities. With its impressive new retail developments and glittering post modern highrises it is easy to forget that the area also provides a home to approximately 30,000 residents or 6 percent of the city’s population.

Within this study’s stated boundaries of Denny Way on the north, Interstate 5 on the east, Puget Sound on the west and South Dearborn Street on the south lie four unique residential neighbourhoods: 1) the International District, the residential and business focal point for the Asian/Pacific community in Seattle and the region; 2) Pioneer Square, designated a special review district in 1973 to maintain its historic character; 3) Pike Place Market, the focus of federal and state urban renewal programs to preserve the market and attract new housing and commercial activities; and 4) the Denny Regrade, rapidly becoming the City’s major new residential community downtown. (NAHRO 1989:3) (See FIGURE I)

Most of the housing currently occupied downtown was built during the boom years of this century’s first three decades. Until the Denny Regrade was down-zoned to residential use in 1985 as part of the City’s Downtown Land Use and...
Transportation Plan, few housing units had been added to the downtown stock since the depression.

The most recent Downtown Housing Inventory (1989b:1) identified a total of 9,028 downtown housing units (all rent levels), 753 more since the last inventory in 1987. New construction accounted for 781 units, the rehabilitation of vacant buildings accounted for 179 units. The most significant losses in units came from conversion of 111 previously permanent housing units to hotel units.

**TABLE I**

**Housing Units**

by

**Downtown Neighbourhood**

<table>
<thead>
<tr>
<th>Neighbourhood</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>International District</td>
<td>1625</td>
</tr>
<tr>
<td>Pioneer Square</td>
<td>702</td>
</tr>
<tr>
<td>CBD</td>
<td>1555</td>
</tr>
<tr>
<td>Pike Place Market</td>
<td>956</td>
</tr>
<tr>
<td>Denny Regrade</td>
<td>4190</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9028</strong></td>
</tr>
</tbody>
</table>

(NAHRO 1989:5)

Downtown is rapidly becoming a polarized community of those who have and those who have not. Due to the growing number of condominiums and market rate apartment projects being constructed, its neighbourhoods now have some of the least and most expensive rent levels in Seattle. (DCD 1990a:41a) This trend is expected to increase as finite funding sources such as the Levy Program, which lasts eight years, eventually run out.

The profile of downtown’s typical resident has changed little over the last decade despite the increase in middle- and upper-income households and downtown
residents remain, as a 1980 Department of Community Development (DCD) staff report (1980:1) described, "among households in greatest need of assistance."

Incomes are lowest in the downtown, the 1980 average median income of $6,814 is expected to rise only slightly in the 1990 census. (DCD 1990a:56) In general, among Seattle’s neighbourhoods, downtown has the highest proportion of retired and elderly individuals living alone in poverty. (DCD 1980:5)

5.2 Housing Problems in Seattle’s Downtown

During the 1980s the shortage of low-income housing units began to visibly impact the downtown area as more and more homeless people were seen living in the parks and on sidewalks. While accurate figures are difficult to obtain, it is estimated that 3,000 people are homeless in Seattle each night, nearly one-fifth of whom are families with children. (Crane 1987:4)

The current shortage of affordable housing in Seattle’s downtown is not a direct result of the withdrawal of federal housing money in the early 1980s. On the contrary, it is the end result of thirty years of public and private capital investment in the downtown neighbourhoods which directly and indirectly resulted in the closure of traditionally affordable apartments and residential hotels. (DCD 1980:26) The lack of federal funds has only served to compound the problem and make it virtually impossible to solve with local resources alone.

The loss of affordable units began in earnest in the 1960s as a result of public projects such as the world’s fair center, the Kingdome, freeway construction and federally funded urban renewal projects. Units continued to be lost as the enforcement of fire and housing codes forced many other low-income hotels to close. Of the 23,000 rental units that existed in 1960, fewer than 13,000 were still in existence in 1970 and by 1979 the number had dwindled to less than 8,000. (Fearn 1985:4)
In the 1970s the loss of affordable units was the result of the conversion of rental housing to more intensive and more profitable uses, primarily office and high-priced condominium. The expansion of revitalization in the downtown during this period made it financially attractive to speculative investors to buy up significant portions of downtown residential property in anticipation of capturing high profits from a forecasted downtown development boom. With their ultimate goal the profitable resale or redevelopment of property many of these investors had neither the skills nor the interest in residential property management. They perceived it to be more cost efficient for them to "encourage" tenants to leave foregoing rental income and discontinuing building upkeep in the interest of future capital gains. (Feldman 1984:24) The City's regulatory measures aimed at preserving downtown housing were unable to address this problem of residential abandonment and the displacement it created. In many cases, building owners successfully circumvented the regulatory requirements of the Just Cause Eviction Ordinance, the Housing Preservation Ordinance and the Municipal Housing Code. (Feldman 1984:24)

By 1983, a survey carried out for the proposed Downtown Land Use and Transportation Plan estimated that 7,311 low-income units remained in the downtown. The City, as part of the Downtown Plan, committed itself to maintaining this number. However, between 1983 and 1987, the Downtown Housing Advisory Task Force (1988:4), set up as part of the Downtown Plan, documented a further loss of 1,459 units from this identified goal. The Task Force (1988:5) attributed this loss to a number of factors including, building closure as investment and development patterns which foster abandonment have continued, rent increases, reconfiguration of units, changes in numbers of permanent residents in hotels and differences in information reported. The private housing market has not been able to replace the low-income non-subsidized rental units lost to demolition, gentrification or change of use. As a result of increasingly tight rental vacancy rates in the City
(now 3.0 percent city-wide and lower in some neighbourhoods), displaced tenants have great difficulty locating alternate affordable rental housing that is decent, safe and sanitary.

Since 1987, City programs have subsidized 420 low-income units; 140 through new construction or rehabilitation of vacant buildings; another 280 were preserved through the rehabilitation of occupied buildings. DCD's 1991 Housing Assistance Plan (1990a:57) reported that current production levels achieved through City-assisted housing programs, coupled with the demolition moratorium (which expired in June, 1990) and the Downtown Housing Maintenance Ordinance, have created a stable condition in very low-income housing for the first time in the downtown area since 1983.

According to the Downtown Housing Inventory (1989b:1) direct and indirect public subsidies have insured the stability and affordability of 4,534 units within the downtown area (50% of all housing). One out of every four subsidized housing units in the City of Seattle is located in the downtown area. (DCD 1990a:57)

Housing affordability has become a problem city-wide as average rents have increased more rapidly than household incomes. According to the 1991 Housing Assistance Plan (1990a:40) persons and families at 30 percent of median income level cannot afford average studio or two-bedroom units in any Seattle neighbourhood. Today, competition for downtown's remaining affordable units comes from both low- and moderate-income households. While the downtown neighbourhoods have some of the least expensive housing in the city even the lowest rents there are becoming less and less affordable. Over the past three years downtown has experienced a 31.65 percent increase in average rent levels, from $395 in 1987 to $520 in 1990. During the past year, downtown average rent levels increased 27.14 percent, more than any other neighbourhood. (DCD 1990a:36)
The anticipated loss of 940 units city-wide of federally subsidized low-income housing between 1990 and 1992 will add an additional strain on downtown’s remaining affordable units as private developers become eligible to prepay their federally subsidized mortgages and take this opportunity to convert those units to market-rate housing. (Roberts 1989:21)

Currently city-wide, Seattle is only able to meet about 35% of its total housing assistance need, an additional 32,233 low-income renter households remain in need of housing assistance. (DCD 1990a:27) In the face of such great need the preservation of 4,534 units out of the original 23,000 seems like small consolation and City actions like the recent temporary moratorium on demolitions have come too late to significantly improve the downtown housing situation.

5.3 Brief History of City Housing Production Programs

The City of Seattle became actively involved in housing production in 1977 through its management of the federal Section 312 rehabilitation loan program. During the late 1960s and early 1970s Seattle had participated in, but did not manage, the federal Model Cities and Urban Renewal programs.

Since the late 1970s the City’s role in housing production has continued to evolve through policies outlined in what a 1986 consultant’s report described as a "plethora" of housing-related documents. This same report identified no less than thirty-seven documents which addressed a range of issues, from energy conservation to zoning regulations, to housing maintenance. (Crane 1987:6) The report noted that in these documents, the City’s role with regard to housing was as often implied as it was specified and that a clear linkage between identified needs and the programs and policies which had evolved over the years was not always evident. (DCD 1986:3)
In 1986, Council adopted Resolution 27471 which set out the most comprehensive statement, to date, of overall goals and objectives relating to the City’s role and responsibility with regard to housing. (See Appendix B-1) This policy statement was based on the recommendations of a citizens’ Housing Policy Resource Group, appointed by the Mayor and Council in 1985 to advise the Department of Community Development (DCD) and the City on the development of housing policies and funding strategies. Despite the comprehensive nature of these policies, they have been criticized for not prioritizing among the policies and for their sometimes conflicting nature. For example, one objective states that the City "should give priority to assisting households most in need, either because such households are very low-income or because such households have special needs that the market is unable to serve" (objective 2.1). This statement is in contrast to a number of other objectives which encourage the City to maximize leveraging of public funds and to implement cost-effective programs. In addition, other objectives which focus on utilizing public funds to provide long-term low-income housing conflict with objectives which direct the City to use public funds to leverage private equity to create low-income housing, a strategy which may not necessarily result in long-term low-income housing. (Crane 1987:6)

Over the past decade there have been distinct shifts in the orientation of the City’s housing production programs. Early programs, which focused on assisting single family homeowners in the neighbourhoods have given way to programs which help nonprofit developers acquire and rehabilitate multifamily buildings in the downtown. For example, between 1985 and 1987, of the 1,150 units of City-assisted housing created, more than 50% of these units were in the Central Business District. If First Hill and the Denny Regrade, two areas contiguous to downtown were added, fully 82% of the units assisted by the City were in the downtown area. (Crane 1987:14)
Because federal housing programs encouraged it, between 1981 and 1984, the City focused on assisting for-profit developers who wished to rehabilitate vacant downtown buildings mostly for moderate- and middle-income tenants. The early 80s also saw the City work to remove obstacles to new development by updating zoning regulations and by trimming red tape at City Hall to ensure adequate land was zoned for apartments. In addition, a new, one-step "Master Use Permit" system was implemented to streamline the application and appeal process for new developments. (Hildt 1981) Currently, City programs focus on aiding nonprofit developers to acquire and rehabilitate existing occupied buildings for low-income tenants.

In 1987, concerned that City-assisted housing was affordable to low-income households, the City reviewed its housing programs to decide whether it should try to serve as many people in need as possible with shallow subsidies or serve only the most critical needs with deep subsidies. The City decided to give priority to assisting households most in need. Resolution 27471 requires that all units developed with City discretionary funds must be affordable to households at or below 50 percent of median income (assuming that 35 percent of monthly income is available for rent).

Early housing production programs were funded solely by federal dollars, where as today with federal funds largely gone, the City has created a number of new housing programs, such as the Growth-Related Fund and the Low-Income Housing Levy, that are locally funded. Today programs are rarely funded from a single source, but are instead complex in nature often utilizing three to four funding sources and serving several income groups. Finally, in 1977, DCD managed only one housing program by 1987 they managed over thirty. (Crane 1987:7)

5.4 Political Realities

While the City of Seattle is applauded for the innovative nature of its downtown housing programs their relative effectiveness must be discussed within a
broader perspective. For all the effort and resources thrown at the downtown housing problem since the mid 1980s the City has only provided a substitute for programs lost in federal budget cuts and has made no gain at all towards addressing the city’s overall housing need. While it is true that Charles Royer "stuck" with the low-income housing issue throughout his twelve year term (1978-1990) as mayor an issue even dearer to his heart was the growth and redevelopment of Seattle’s downtown. (Goldsmith 1990:6A) The Mayor believed that such benefits as a broader tax base and the growth of jobs created by downtown expansion would benefit all Seattle’s citizens. (Fox Interview)

Royer was not, however, insensitive to the effects that growth was having on downtown’s low-income residents and when pushed by housing advocates and the community did support passage of a condominium conversion law, a just cause eviction ordinance, measures to strengthen the housing code, an anti-abandonment law and most recently, a temporary moratorium on demolitions. He adamantly refused, however, to support measures which would put a direct constraint on the growth that was causing the housing problem in the first place. A 1982 proposal for a moratorium on downtown development, for example, was defeated in City Council by a six to three vote. (Case 1988:E1)

In fact, the Mayor and Council were more willing to direct City resources to encourage downtown development than they were to direct resources to create low-income housing. For example, the City of Seattle spends approximately one-third of an annual $800 million budget to provide infrastructure to facilitate downtown’s growth while $15 million is spent yearly on low-income housing, only $2.5 million of which comes from general City revenues. (Fox Interview)

Supporting downtown housing has proven politically expedient for Royer. He could create a real momentum for low-income housing without fear of antagonizing the voting constituent in the outlying neighbourhoods who, while they would pass a
tax levy to fund low-income housing, didn’t want it in their backyard. (Guthrie
Interview) His vocal opposition to the Reagan cutbacks for low-income housing
gained him national attention. Finally, at the same time that he was seen to be
doing something morally correct he was able to use this issue to generate support for
his vision of a mixed income residential community in the Denny Regrade.

5.5 The Major Players in Seattle’s Low-Income Housing Delivery System
Department of Community Development (DCD), Housing Division

The Department of Community Development administers a variety of
programs which generate or provide revenues for low-income housing, some of which
are local in nature such as the Transfer of Development Rights bank, the Housing
Levy and the Growth-related Housing Fund, others such as the SRO Fund are
capitalized by federal Community Development Block Grant (CDBG) monies. In
this capacity DCD acts as a very specialized gap financing "bank" loaning money
primarily to nonprofit housing developers to develop new low-income housing and to
rehabilitate existing low-income units to meet housing code standards.

While many kinds of projects (including homeowner and rental rehabilitation)
may be funded at any time throughout the year, major project proposals are solicited
by DCD through a periodic Request for Proposals (RFP) process. Proposals
generated from the RFP process are then subjected to a careful review in which
financial feasibility and program design are carefully evaluated. (DCD 1990a:59-60)

To ensure the successful completion of the project the Department becomes
an aggressive partner in the development process visiting the sites weekly of those
projects it finances. After a project is completed DCD’s involvement continues as
they monitor marketing activities, tenant characteristics and income, and rent levels.

As a municipal line department the Department of Community
Development’s activities support the policy priorities identified by Seattle’s Mayor
and Council. Because Mayor Royer was strongly committed to downtown business growth the challenge to DCD in addressing the downtown housing problem has been one of balancing and accommodating the requirements of two important but competing downtown occupants:

1) a population of very poor people, many old, most living alone, who need to live downtown in safe and clean housing at low rents, close to services, for as long as possible; and

2) a vital business and growing middle- to upper-income residential community which requires land and services.

As a result, because DCD serves both groups, their programs have had to represent the City's conflicting policy objectives, which on one hand work to strengthen downtown business health, but on the other hand attempt to house low-income people on the most costly land in the city. (DCD 1979:9)

The City's goal has never been to solve the downtown housing problem. As a 1979 report (DCD:9) stated, the City chose instead to, "keep and restore or replace, if lost, Seattle's existing supply of downtown housing for low-income residents at affordable rents whenever possible." Within this policy framework, Mayor Royer's support for low-income housing "elevated housing into something people paid attention to." (Goldsmith 1990:A6) Demonstrating his commitment to housing Royer increased the number of City staffers working on housing from two to thirty one. City departments were encouraged to prioritize low-income housing above other kinds of developments in terms of permit approval and planning. Finally, and perhaps most importantly, DCD staff were allowed a degree of flexibility and creativity in housing program design. From this fertile ground came such innovative programs as the Housing Bonus Program, a voluntary linkage program which sought
to tap private development and the Growth-Related Housing Fund which utilized the trust fund concept. (Guthrie Interview)

Further evidence of the City's concern for Seattle's housing problem is the comprehensive nature of DCD documents which monitor city-wide need. As part of the guidelines of the federal Community Development Block Grant Program DCD must annually prepare a Housing Assistance Plan (HAP). DCD far exceeds the documentation required by the federal program and includes comprehensive information on housing needs to establish the policies, strategies, and programs to guide the allocation of local funding. The City uses the Housing Assistance Plan as their strategic planning document for the allocation of all available resources for low-income housing.

HAP provides particularly detailed population and housing information for the downtown and three other neighbourhoods named as Special Objectives Areas based on their extreme need for housing assistance.

The Nonprofit Sector

Over the past decade and concurrent with the diminishing role of the private for-profit sector in Seattle's low-income housing production effort, the nonprofit sector has grown in sophistication and accomplishments. As TABLE II indicates, Seattle's nonprofit organizations have produced nearly three times the number of assisted rental units as did the for-profit sector between 1986 and 1988. This change reflects both the shift in federal funding and the targeting of local programs such as the Housing Levy to the nonprofit sector.
### TABLE II

Private For-profit and Nonprofit Low-Income Rental Production and Ownership, 1986-1989

<table>
<thead>
<tr>
<th></th>
<th>Production</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>For-Profit</td>
<td>54</td>
<td>82</td>
</tr>
<tr>
<td>Nonprofit</td>
<td>270</td>
<td>186</td>
</tr>
<tr>
<td>Total</td>
<td>324</td>
<td>268</td>
</tr>
</tbody>
</table>

(Environmental Works 1989:61)

Today, this sector is made up of a diverse group of about fifteen nonprofit housing providers and a smaller number of Public Development Authorities (PDAs). In the mid-1970s, the City created and supported the formation of neighbourhood PDAs to deliver neighbourhood-based and neighbourhood responsive services.

In the 1980s, an increasing number of nonprofit groups have focused on low-income housing preservation and multifamily rehabilitation in both downtown and adjacent neighbourhoods. Some of these groups, such as the Plymouth Housing Group are church inspired and committed to serving the very lowest-income persons. Others such as the Capital Hill Housing Improvement Program and Inter*Im Community Development Association work to stimulate economic development and affordable housing opportunities within specific neighbourhoods. While still others have formed around special interests such as housing for Vietnam Vets, street women, chronically homeless single men, or the mentally ill or developmentally disabled. (Greer 1989:6A,7A) For these nonprofits creating affordable housing is not always their primary mandate, but on recognizing a specific need they develop a single housing project that compliments the service that their particular organization provides. (Schroeder Interview)
In 1986 a group of thirteen nonprofit housing developers formed the Seattle Housing Development Consortium (SHDC) to lobby for funds at the federal, state and local levels on behalf of member agencies. SHDC's director keeps member nonprofits informed of changes in funding policies and recently helped to negotiate the City's development fee policy. In addition, SHDC actively works to heighten public awareness of the significant role nonprofit housing has played in meeting Greater Seattle's housing needs. (SHDC 1989:1) While these activities have proven effective, member agencies admit that SHDC is one more nonprofit organization competing for already scarce resources. (Schroeder Interview)

Several nonprofit resource groups including Common Ground, the Local Initiatives Support Corporation and Environmental Works/Community Design Center are active in Seattle offering technical assistance to individual nonprofit organizations to help build capacity within the nonprofit sector.

Common Ground was set up in 1980 by the Metro YMCA and the Church Council of Greater Seattle among other groups, to help nonprofit religious and community groups develop, own and operate low-income housing. Their funding comes from a variety of sources such as federal Block Grant money administered by the City of Seattle, local and national foundations, the United Way and private individuals. This diversity is important to ensure that the loss of one source will not cripple their operations. Funding is always a problem, however, and recently Common Ground has found it necessary to work a development or consultation fee into the budgets of successful projects. Not all lending institutions presently recognize the importance of their role to the success of a project and often refuse to pay the fee. Eric Brown, a Housing Development Specialist at Common Ground, denied that such a refusal in the future would stop them from working on projects that they felt were important for humanitarian reasons. (Brown Interview)
Common Ground provides technical assistance only and does not own or operate projects itself. Working with an eleven member staff, the organization has helped to develop all types of low-income housing, over 1,000 units in all. They have developed two areas of specialty: assisting social services to create housing for special needs populations linked to services, and preserving very low-income housing in Seattle's downtown area.

Over the past two years Common Ground has worked to develop an innovative funding mechanism known as a pooled income fund. The fund would link the charitable investments of individuals and corporations with nonprofit organizations to develop low-income housing. Title to individual projects would be held by the fund, the Common Housing Alliance, for the investment period but would then be transferred to the specific nonprofit agency that developed and managed the project from its inception. Common Ground's proposal is currently before the Internal Revenue Service for review and approval. Initial responses from the community have been mixed. The concept has met with interest and approval from potential investors while nonprofits, conditioned by local programs to owning a project outright from the beginning, are less interested. (Brown Interview)

The Seattle branch of the Local Initiatives Support Corporation (LISC) plays a critical role in helping to build local nonprofit capacity. LISC took over the operation of a nonprofit fund formerly run by the City using federal Block Grant funds which provides no-interest potentially non-repayable loans to nonprofit housing developers to cover up-front project development costs (engineering, feasibility and architectural work). When a project's financing is completed, the original loan is repaid back into the fund to ensure their continuing availability. LISC matches each $75,000 loan of City money with its own funds. (Brown Interview)

Founded in 1970, Environmental Works is Seattle's only public interest architecture and planning group. Their staff provide architectural, construction
management, and project development assistance to community groups and organizations primarily serving low-income households. In addition, Environmental Works provides development and design assistance to social service agencies and nonprofit housing developers for emergency housing, residential treatment facilities, nonprofit ownership, and cooperative housing. (SHDC 1989:3)

The nonprofits' strong sense of commitment to maintaining long-term affordability has contributed a valuable element of stability to Seattle's downtown low-income housing stock. By owning their own projects they have eliminated the possibility of demolition for many units which otherwise would have been lost. The City, interested in maintaining the stock's long-term affordability, facilitates property acquisition and rehabilitation by a nonprofit developer by offering, through the Housing Levy Program, a deferred payment loan at 1 percent per annum over forty years forgiven between year twenty and forty at the rate of 5 percent per year. Prepayment penalties are written into the loan agreement to discourage change of use, and to provide additional funds to preserve low-income units at another site. (DCD 1987:12)

Where outright purchase has not been an option, many nonprofits have been successful in negotiating long-term leases with property owners to allow a building to be run as affordable housing for a defined term. In this way the nonprofit brings affordable units back onto the market that would otherwise have been lost to abandonment. The terms negotiated for each lease vary greatly. Plymouth Housing Group pays the owner of one hotel $120,000 per year while another with a more charitable spirit asks only $800 a month. Because the loss of units will be experienced eventually under the finite terms of a lease, the City requires that the funds they advance the nonprofit for rehabilitation purposes be repaid as a low interest amortized loan. (Schroeder Interview)
Nonprofit housing developers active in downtown have developed significant expertise and capacity over the past ten years. They have become adept at leveraging a variety of funding sources, and resourceful in their use of volunteer labour and donated materials. Seattle’s Plymouth Housing Group (PHG) is representative of this group. Established in 1980 by members of the Plymouth Congregational Church the Plymouth Housing Group is committed to developing, rehabilitating and managing housing for very low-income persons in downtown Seattle. As the major nonprofit provider of single room occupancy housing in Seattle’s downtown, PHG is unique in its commitment to serving the very lowest income persons.

Strong volunteer involvement, up to 2,000 hours per project, in conjunction with public and private grants and loans, has helped PHG put units back into service and furnish them at minimal cost, while reducing or maintaining low rents. Ann Schroeder (Interview), PHG’s Director, believes that the strong volunteer involvement on their early projects gave PHG credibility with lenders and helped to reduce the lender’s perception of risk. Volunteer involvement has not declined as PHG has gained in expertise, on the contrary, they now attract volunteers from a variety of organizations outside their own Church, including student volunteers from Seattle University, Seattle Pacific University, The Bush School and Community Impact, as well as the Mennonites and other religious groups. (Duncan 1989:B3)

Over the past ten years, PHG has developed 300 units in six buildings, some owned some leased, representing a $3 million investment. Plymouth has found that leasing a building offers a nonprofit organization a low risk way to begin developing low-income housing. Their first project in 1980, the Seven Seas Hotel, had an escape clause written into the lease agreement which allowed Plymouth out of the lease if their board of directors found that it was economically unfeasible to continue. (Schroeder Interview)
With a staff of twenty-four, PGH currently manages 270 hotel, studio, and one-bedroom units with rents ranging from $113 to $275 per month. Since 1988 Plymouth Housing Group has housed approximately 430 persons per year and by mid-1991 this number will rise to approximately 580 persons. Over the past ten years all PHG buildings have operated on a break-even or positive-cash-flow basis.

Plymouth, recognizing that many of their residents are just out of emergency shelters or off the street and are coping with a variety of disfunctions, has developed referral and service linkages with the Downtown Emergency Services Center, the T.A.R.G.E.T. Homeless Employment Project, and other shelter and service agencies. Plymouth believes that a combination of such services and a permanent supply of affordable housing are the only viable way to break the cycle of homelessness.

With the recent alarming increase in the drug problem PHG insists on intensive building management for all their projects and has doubled their supervisory staff and tightened their screening process to maintain control of their buildings. (Schroeder Interview)

Another nonprofit developer working successfully in Seattle's downtown to create low-income housing is the Seattle Housing Resource Group (SHRG). SHRG was formed in 1980 by the business community under the leadership of their powerful advocacy group the Downtown Seattle Association (DSA). SHRG was a spinoff of the Washington Coalition for Affordable Housing, an organization, described by some as "a big-money cadre of developers, banks and real estate brokers," which had waged a successful battle against rent controls in 1979. (Dempsey 1981)

Initially, critics had portrayed SHRG as a "coalition of power-brokers who hope to silence advocates of rent control and demolition curbs by tossing them a few low-cost crumbs" but they have had staying power. (Dempsey 1981) While initially funded by a $750,000 grant from their DSA parent for their first three years of
operation, the high interest rates and the withdrawal of federal funds for low-income housing programs in the early 1980s forced SHRG to lay off their paid staff and continue as a volunteer-run organization: (PSBJ 1989:6A)

Today SHRG manages 587 units in ten locations and has developed, along with others, 964 units of affordable housing for individuals and families. While SHRG operates much the same as other nonprofits using low-income tax credits and local housing program funds their board of directors, which includes property managers, developers, representatives of lending institutions and bankers, has given them access to private financing that is not normally available. (PSBJ 1989:7A) For example, to finance their Oregon Hotel project SHRG secured a bank loan from Pacific First Federal; persuaded investments from Boeing, US Bancorp, and Security Pacific Bank for federal tax credits; and also attracted the last of the mitigation funds from the Washington State Convention and Trade Center. (PSBJ 1989:6A)

Despite the high level of expertise and the impressive achievements of Seattle’s nonprofits there still remains a significant lack of capacity across the nonprofit sector. By targeting its resources for low-income housing almost exclusively to the downtown, Seattle has increased the capacity of those organizations that specialize there at the expense of those operating to meet housing needs county-wide. Even those operating downtown can only handle a limited number of projects at one time given the two to three year development process for a single project and the difficulty in hiring staff familiar with the government regulations of a low-income rehabilitation project. As a result, recent City requests for proposals have generated only a few applications. (Guthrie Interview)

Seattle’s Housing Advocates

Advocacy by interest groups, long a part of the American political landscape, has been particularly influential in shaping the local debate surrounding Seattle’s
downtown low-income housing problem. On one side of that debate are the developers and business community who support their vision of Seattle’s downtown with calls for public investment in an improved transportation system and downtown mega-projects such as the convention center and Westlake Mall. On the other side, are those who see the effects that such development have had on the downtown’s residential community and work to remedy them.

The political lines were clearly drawn around the issue in the late 1970s when Seattle’s downtown economy changed from one of disinvestment to one of uncontrolled growth. During this period middle-class neighbourhood organizations and environmental advocates became skilled at fighting developers over siting, zoning, and open-space issues and at keeping apartments out of single-family neighbourhoods. Meanwhile, groups like the Denny Regrade Community Council and People for Downtown Housing (PDH) took on the social issues of displacement and affordable housing, and worked to involve low-income tenants in land issues for the first time. (Simon 1982)

PDH has been particularly successful in helping low-income residents downtown to organize and articulate their housing concerns to City decision-makers. During PDH’s six-year existence they secured $1.5 million in City funds to upgrade 1,500 low-rent apartments threatened with closure by the fire code, obtained passage of the nation’s first law requiring developers to replace demolished units and to provide relocation funds to displaced tenants, obtained passage of the nation’s first anti-abandonment law barring abandonment of structurally sound low cost housing in the downtown, and through confrontations with individual developers, prevented closure of low-income buildings and services. (Fox 1989) These early agreements with developers set a precedent, which the City continued in its Housing Bonus Program, that developers should assume some social responsibility towards those affected by their developments.
PDH spawned another group, the Seattle Displacement Coalition (the Coalition) to provide a setting where low-income people and leaders of community, church and issue groups could work together to expand the struggle for the preservation of low-income housing throughout the Greater Seattle area. Presently, the Coalition is the only organization in the city addressing low-income housing issues.

In the past several years, the Coalition has been successful in obtaining passage and extensions of a moratorium on the demolition of low-income housing downtown and in securing City Council approval of an additional $6 million from local revenues for low-income housing construction. They exposed the misuse of federal low-income housing tax credits by a Seattle developer which cost the City over $1 million. In October, 1988, they coordinated the "Housing Now" rally which led to Governor Gardiner's commitment to increase funding for low-income housing. In December, 1988, they helped a group of mobile home tenants to organize and convince City Council to pass, and later extend a moratorium on conversion of mobile home parks. Through "Operation Homestead" the Coalition directed public attention to the continuing problem of affordable and usable units lost to unnecessary abandonment. The group used the seventy-three unit McKay Apartments, slated for demolition to allow expansion of the state convention center, as a base to organize sleep-outs, street feeds, pickets, leafletting and civil disobedience actions.

In the future the Coalition intends to continue their efforts to replace the Housing Preservation Ordinance lost in 1987 when the State Supreme Court declared it unconstitutional. They are also lobbying City Council to use the conditional use process and Special Review District overlays in neighbourhoods where there are high concentrations of affordable housing to give the community greater control. In addition to conventional advocacy around the need for stronger preservation
legislation, they are also promoting options such as squatting, land trusts and co-ops which would provide tenants with more direct control over their housing situation.

The defeat of candidates sympathetic to low-income housing issues in the recent municipal election has made the Coalition more committed to working outside the established political system to achieve their goal of preserving low-income housing opportunities. They expect to use the initiative process, court actions, and more aggressive street level strategies to draw attention to what they describe as "the City's failure" to address the low-income housing problem. (Fox Interview)

5.6 Summary

This chapter provided the background information to the case study. It briefly described the nature of Seattle's downtown neighbourhoods and noted that, while the average income was expected to rise due to an influx of middle- and upper-income residents the population was still largely made up of elderly seniors, many of whom lived alone and in poverty. This chapter discussed the nature of the downtown housing crisis and identified affordability, gentrification, abandonment, demolition and tenant displacement as major areas of concern. A brief discussion of the evolution of City housing production programs noted a shift over the past decade from administration of federal funds for programs which supported homeownership opportunities in the neighbourhoods to programs which helped nonprofit housing developers acquire low-income SRO hotels downtown.

This chapter discussed Seattle's low-income housing delivery system and identified the City's Department of Community Development, local nonprofits, and Seattle's housing advocates as its major players. Local housing advocates have been particularly effective in identifying local housing needs and working to get the City to develop programs which address them.
Chapter Six discusses the City of Seattle's model for producing assisted housing and describes those individual programs which work to generate housing revenues or affordable units in the downtown.
CHAPTER SIX
Seattle’s Innovative Downtown Programs

While most observers agree that Seattle has a serious housing problem there has been sharp disagreement among Seattle's various special interest groups over how the City's housing needs should be met, as well as over who should pay to meet those needs. Typically, tenant groups have wanted regulations, neighbourhood groups haven't wanted anything to change and developers have wanted as little regulation as possible.

The City of Seattle's model for producing assisted housing combines many different approaches, including gap financing of housing development, incentive programs, and regulatory policies. For the most part, the City has chosen to use off-budget strategies, which do not make demands on Seattle's general revenues, to leverage multiple sources of additional funding. It has only been within the last two years that Seattle has committed local revenues ($4.8 million in 1989) for housing programs. For many years, the City held that housing was not a part of the city's infrastructure and was therefore the responsibility of the state or federal governments. (Fox Interview)

The City has made it a priority, through its programs, to target the majority of its resources to preserve and maintain existing low-income housing units in the downtown neighbourhoods.

This chapter discusses those housing programs developed by the City of Seattle and administered by its Department of Community Development, to replace the lost federal housing revenues and to address downtown's problems of abandonment, displacement, and affordability. This chapter also discusses the City of Seattle's current and future strategies for addressing its downtown housing problem.
6.1 Downtown Housing Regulatory Ordinances

Downtown Housing Maintenance Ordinance

The Downtown Housing Maintenance Ordinance (DHMO) was passed to prevent systemic housing closure and abandonment of downtown blocks by property owners awaiting more lucrative redevelopment. It requires downtown landlords to repair and keep open low-income rental units until they receive a demolition permit or a change of use permit from the City.

Under the DHMO, when an inspection indicates that units are deliberately left unrented the City can issue an order to re-let the rooms. Should repairs be needed to make the building habitable the City can order repairs if the cost is less than $4,000 per unit. The Ordinance limits the owner’s contribution to $2,000 with the rest of the cost picked up by the City. The Ordinance also allows the City to make interest-free loans of up to $4,000 per unit and to forgive such loans at a rate of 20 percent a year if the units remain low-income rental. (DCD 1989a:74)

Housing Preservation Ordinance

Seattle’s Housing Preservation Ordinance (HPO), originally adopted in 1980, was designed to mitigate the loss of scarce rental housing to demolition or conversion of use. The HPO imposed a surcharge, in the form of a license fee, on the demolition of housing and transferred a portion of the costs of displacement to property owners seeking to convert residential property to more profitable uses. The fee acted as a disincentive, since it reduced the profitability of conversion. Fee revenues created a fund for replacing demolished housing units. Owners had the option of avoiding payment of the fee altogether by replacing demolished housing with comparably priced units. (Fearn 1985:4)
Between 1980 and 1985, the HPO reduced the rate of demolition downtown from over 500 rental units annually to about 200 units per year. In addition, more than 1,000 units of replacement housing were built, which included over 200 low-income units. The HPO's demolition fee produced $83,000 in revenue. (Fearn 1985:6)

In July, 1985 the HPO was amended to help emphasize the regulatory purpose of the program. The demolition fee was eliminated altogether, instead developers were required to replace demolished downtown rental units with an equal amount downtown and maintain those units as rental for 20 years. In addition, the HPO offered a measure of protection to tenants by prohibiting evictions within 180 days of the owner's application for a demolition license and by requiring 120 days' written notice to tenants of the owner's intent to apply for a housing demolition. The ordinance also required relocation at the owner's expense into comparable housing, or direct cash assistance of up to $2,000 per household, for those displaced households at or below 80 percent of the Seattle SMSA area median income. (DCD 1990b:1)

The City drew its authority to regulate demolition from a section of the State Constitution which gives a municipality "police powers" to regulate businesses and private property for the public good. The City interpreted this as including the power to require property owners to pay fees or dedicate lands to mitigate the adverse impacts of development. (Fearn 1985:4) However, in April, 1987, the State Supreme Court unanimously struck down the HPO saying that its requirements imposed "an unconstitutional tax on a limited number of property owners." (Journal of Commerce 1987) The City is currently appealing a November, 1987 ruling by the King County Superior Court that the relocation requirement of the HPO is also unenforceable under State law.
While agreeing that additional revenues needed to be raised to address Seattle’s housing problems developers argued that the City had an obligation to place that responsibility on the community as a whole. They also observed that the development pressures the HPO was designed to combat were in fact created by Seattle’s zoning code and land use policies which favoured downtown redevelopment. (Hill 1987:6) Regulations like the HPO, they believed, helped to create an adversarial relationship between the public and private sectors which stifled creative responses and favoured instead, the use of incentives to encourage voluntary efforts like the business community’s funding of the nonprofit Seattle Housing Resource Group. The HPO was the City’s most powerful weapon in its fight against the loss from demolition of low-income units downtown.

Moratorium on Downtown Low-Income Housing Demolition

In February, 1988, Seattle City Council declared a twelve month moratorium on demolition and change-of-use permits for downtown low-income housing. In the short term, the action was intended to stem the expected loss of approximately 355 low-income units in the downtown. In the longer term the moratorium was to give the City a breathing space in which to seek state legislative help to remedy defects the state Supreme Court had found in the City’s Housing Preservation Ordinance. (Baller 1988:C3)

During the moratorium the City’s Office for Long-range Planning (OLP) analyzed alternatives to assist in maintaining downtown’s 7,311 low-income units. The major recommendations from this work program included: restructuring the bonus system to give higher priority to housing; lowering the income levels served by the bonus program; altering the City’s land use policies and code to reaffirm the City’s commitment to preservation and production of low-income housing; and
working for state and federal legislation to provide tax incentives and funding for low-income housing. (OLP 1989:2)

The moratorium which was subsequently extended through June, 1990, was criticized by housing activists for not applying to demolitions city-wide, by others who saw the action as mistimed, and by still others who saw it as misdirected, focusing only on the short term loss of units and not the City’s overall housing problem. (Boren 1988:2) The moratorium expired in June, 1990.

6.2 Low-Income Housing Funds

Growth-Related Housing Fund

The Growth-related Program was designed in 1985 to mitigate the loss of affordable housing units due to expansion and redevelopment in Seattle’s downtown. The tax impact of that growth has been significant, for example since 1983, Seattle City government has realized $32 million in real growth revenues-tax revenues in excess of inflation-to the General Fund. Of this, an estimated $14.8 million came from downtown growth. This revenue would not have occurred if growth in the downtown had not been sufficient to generate tax revenues in excess of inflation over the past six years.

The Program annually dedicates a portion of the City’s incremental increase in property tax revenues from downtown new construction to building or preserving low-income housing. Between 1985 and 1989, $2.4 million in property tax revenues, primarily from downtown office construction, has gone into the fund. The fund does not depend entirely on growth revenues from office construction, increases in retail sales, overall business activity, property values, and new construction have also contributed.

In 1987, the Program’s funding criteria were amended following consultation with citizen groups, representatives of nonprofit development agencies, the
Downtown Human Services Council, and Evergreen Legal Services, in addition to a private developer and an architect. Because many of the other housing funding sources had more restrictive guidelines it was decided that the Growth-related Program should be kept flexible, allowing for example, the funds to be used for either permanent or transitional housing. One important amendment targeted the Program’s funds to very low-income households exclusively. Now at least 50 percent of the funds may be used for housing which serves very low-income households with incomes at or below 30 percent of the Seattle/Everett SMSA median income. One hundred percent of the funds must be used for housing which serves low-income households with incomes at or below 40 percent of the Seattle/Everett SMSA median income. (City of Seattle 1987)

Under the Growth-related Program funds are to be used for one-time up-front capital subsidies to low-income multifamily rental projects and for the creation of an endowment fund to provide operating subsidies.

Low-Income Housing Matching Fund

Seattle’s Low-Income Housing Matching Fund of $2.5 million is used to match low-income housing financing resources which are not directly or indirectly funded by the City. The goal of the program is to match dollar-for-dollar the City’s investment through the combination of debt, cash equity and grants. Eligible matching sources are:

1) **Federal Rental Rehabilitation Program.** The fund may be used, by nonprofit sponsors only, to match the federal program. The federal program requires a 50 percent match which nonprofits are generally unable to provide without City assistance.

2) **Any source not controlled by the City** which is
provided by a grant, twenty year or longer deferred payment loan, rental subsidy, cash equity contribution or land donation.

3) **Debt financing.** Long-term (ten years or longer) debt financing is allowed as match as long as the City’s affordability policy is met in the project. Financing may include private loans, owner financing, tax exempt financing, or below market rate loans.

4) **Donated labour.** The program values the labour based on the number of donated hours multiplied by the current hourly rate for labourers.

5) **Substantial multi-year cash services funding.** The program allows only cash provided for services, not in-kind contributions as eligible for match.

Eligible projects may be located anywhere in Seattle and may provide housing for any low-income population including renters and homeowners. The program defines low-income renters as those who earn 50 percent of the area median income or below. (DCD 1990c)

**Low-Income Housing Levy**

In 1986, Seattle voters passed a $49.975 million special purpose levy which increased property taxes over an eight year period (1987-1994) to create 1,000 units of low-income housing. In 1982, Seattle voters had shown a similar concern for the housing situation of the city’s seniors by passing a $48.1 million bond issue earmarked for housing construction. The Seattle Senior Housing Program,
administered by the Seattle Housing Authority, proved to be extremely successful with over 1,200 units constructed.

The Housing Levy increases the supply of housing for large and small families and for populations with special needs, such as the homeless, mentally ill, physically disabled, and individuals with alcohol or drug-related problems. It also sets up an Operating and Maintenance Trust Fund to provide resources to extremely low-income households where other operating subsidies are not available.

A portion of the funds, initially $6.1 million, have been designated to preserve a minimum of 305 existing low-rent units in Seattle's downtown through the Levy's Downtown Housing Preservation Program. Only this program's guidelines will be discussed here.

Under the Downtown Program Levy funds are used to produce permanent, high-quality housing units for low-income, primarily single-person households, with an emphasis on those at risk of becoming homeless. At least one-half of the units produced by the Levy are targeted to extremely low-income households with incomes at or below 30 percent ($8,200 for a one person household) of the area median income. The remaining funds must be used for units affordable to very low-income households earning between 30 and 50 percent of median income. Because maintaining the long-term affordability of the units is the Program's primary objective, the Housing Levy Ordinance specifies that at least 85 percent of units must be in nonprofit and/or public ownership. Nonprofit sponsors who can demonstrate project control through an acceptable lease can request levy funds for rehabilitation but the loan must be structured to insure repayment. For-profit developers are not eligible for funding under this program.

In keeping with City of Seattle policy, Levy projects must leverage non-City resources for capital operation, and supportive services whenever possible. While sponsors are encouraged to consider Downtown Housing Preservation Program funds
as matching funds for other programs, providing rents affordable to very low- and extremely low-income households is a higher priority than leveraging debt financing. (DCD 1987:6-13)

Project sponsors submit proposals to DCD in response to a request for proposals (RFP) process. Proposals are reviewed by DCD staff and, to insure the accountability of public funds, by a review panel that includes community members with service, development, and finance expertise. The panel rates each project based on consideration of the following comprehensive list of project characteristics:

- after-rehabilitation rent levels
- location
- tenant displacement
- length of low-income housing commitment
- leverage of other non-City funds
- cost per unit
- operating budget
- development budget
- financial capability of project sponsor
- experience of development team
- scope of rehabilitation
- management plan
- tenant relocation plan
- support services if necessary and appropriate for proposed tenant population.

Funding recommendations are then prepared by DCD staff and reviewed by an appointed Levy Oversight Committee. The final project selection is made by the DCD Director. (DCD 1987:15)
Plymouth Housing Group's rehabilitation of the Scargo Hotel, 2205 First Ave., is an example of how Levy funds are spent through the Downtown Housing Preservation Program. This fifty unit building, originally built in 1902, was purchased by PHG for $450,000 in March, 1988. Rehabilitation included fire and life-safety repairs, exterior weatherization, common bath renovation, cooking and laundry facilities and other repairs. All units were painted by volunteers.

As of September 1, 1988, the building qualified for federal Section 8 rent subsidies for the homeless provided through Seattle Housing Authority. Qualifying low-income tenants pay rent not exceeding one-third of their monthly income.

<table>
<thead>
<tr>
<th>Scargo Hotel: Development Cost/Financing</th>
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<tbody>
<tr>
<td>CDBG</td>
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<tr>
<td>Seattle Downtown Levy</td>
</tr>
<tr>
<td>Tax Exempt Loan</td>
</tr>
<tr>
<td>Owner Equity</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

(PHG, NAHRO 1989:19)

6.3 Downtown Housing Production and Preservation

In 1985 the Land Use and Transportation Plan for downtown Seattle was adopted to set policy directions to guide its future development. The Plan was one element of a larger project begun in 1978 to replace Seattle's outdated Comprehensive Plan with new land use policies, a new zoning code and a new zoning map.

The Plan was originally driven by transportation concerns. It was expanded to include housing issues when public concern was raised over the possible loss of
low-income housing if a proposed rezoning went through to encourage housing for all income levels in the downtown.

The Plan acknowledged that if current trends continued most of downtown’s remaining low-income units would be lost by the year 2000 and committed the City to maintaining the existing 7,311 units as part of an overall strategy to create a downtown residential neighbourhood with housing for all income levels. The Plan created a special housing district in the Denny Regrade with zoning provisions to encourage housing development. It relied on the Housing Preservation Ordinance, revised to require replacement of demolished units within Downtown, and the Downtown Housing Maintenance Ordinance to stop the loss of low-income units through building abandonment. In addition, the Housing Bonus Program was established to subsidize middle-income housing that would not otherwise be produced by the private sector. (City of Seattle 1985:16-18)

Seattle’s Housing Bonus Program is a linkage-like program that operates on a voluntary, rather than mandatory basis. An earlier version of the program included an "accessory housing requirement" which mandated that developers provide housing in proportion to the amount of office space that they were to build. The proposal was subsequently withdrawn under pressure from the business community’s lobby group the Downtown Seattle Association. (Fox 1986:15)

The rationale for the Bonus Program comes from the assumption that employment growth from new commercial development creates an increase in housing demand. The Bonus Program allowed developers in the office district to obtain an increase in floor/area ratios in return for housing construction, rehabilitation, or cash contributions for housing development. The Plan also provided for the maintenance of the existing stock of low- and moderate-income downtown housing. This was made possible through the transfer of development rights (TDR) and the requirement that demolished units be replaced.
The TDR option was meant primarily as a private sector subsidy for the preservation of low-income housing. It worked in the following manner, if there were $450,000 worth of air rights over an existing occupied low-income building the owner could sell those air rights to a commercial developer to increase their project's square footage to the maximum allowable FAR. Owners of existing housing would be required by the program guidelines to rehabilitate the building to a minimum standard. These buildings had to be maintained as low-income for twenty years.

Problems occurred with the TDR option as a result of the City's strict code requirements for rehabilitation projects. Developers found they had to arrange for additional funding to bring buildings up to code in excess of the amount gained from the original sale of the air rights on the private market. (Guthrie Interview)

Developers of large office buildings were able to earn an increase in floor/area ratios from 10 to 15 through provision of public improvements, transfer of development rights for historic preservation, or contributions to other public services. Floor/area ratios could be increased again from 15 to 20 in the office district and from 11 to 14 in the office expansion area in return for housing.

Developers could elect to use the cash option under which contributions are made to the State housing trust fund, a mortgage assistance program, or to a housing project sponsored by a nonprofit group. Cash contributions were $15.30 per square foot of extra space in the office district and the retail core and $10 per square foot in the office expansion district. (DCLU 1985:77-103)

As of January, 1989, one commercial building, the 55-story Washington Mutual Tower, had been constructed under the Bonus Program and two projects were under consideration for bonus credits. In exchange for 13.3 stories of additional office space, developer Wright Runstad & Company contributed more than $2.5 million to assist the construction of 101 new units in three buildings and the rehabilitation of 155 units. The developer paid a cash fee for the new construction
and purchased transferable development rights from three residential buildings to provide rehabilitation funding. The contribution per commercial square foot came to roughly $9.60. In addition to the Wright Runstad project, contributions came from two older office buildings for which a developer requested modifications. (Laser and Porter 1986:10) It should be noted that a number of other public and private agencies also helped pay for the 256 units attributed to Wright Runstad. Applying the ratio of their participation in these projects to the total cost of the projects, the Washington Mutual Tower was responsible for only 80 of these units. (Seattle Weekly 1988)

The Plan’s creation of a new housing district in the Denny Regrade and the area’s downzoning from an FAR of 10 to 6 had positive results. With the speculation market for land in the area wiped out by the downzoning land became less expensive and investment in housing increased dramatically with investment in other commercial activities following. (McKenzie Interview)

Since 1988 the Housing Bonus Program has undergone some significant revisions. Following a broad review of City housing issues and policies conducted by the City Council’s Housing and Human Services Committee in 1987 the affordability guidelines of the Bonus Program were amended to target low- and low-moderate income households instead of moderate-income households. The Program was changed from supporting housing production for households earning less than 150 percent of the Seattle/Everett area’s median household income to supporting production for households whose total income is less than 50 percent or between 50 and 80 percent of that median income. (DCLU 1989:86) DCD staff fear that the withdrawal of public support for moderate income housing downtown will serve to further polarize the income levels of those able to live there. (McKenzie Interview)

Following the passage by Seattle voters of citizen’s Initiative 31 (CAP) in May, 1989, the Bonus Program was changed to reflect CAP’s recommended
amendments to downtown's zoning which reduced density and height allowances, halving the base floor area ratio in the office areas until 1994. With developers now able to build only half as high or as dense the return to the City from the Bonus Program in terms of anticipated housing production or cash contributions is greatly reduced. To compensate for this loss the City increased the bonus value used to determine a developer's cash contribution from $15.30 to $20.00. (DCLU 1989:85) The City took this opportunity to create a TDR bank for the Program to let the City purchase development rights from owners of low-income housing for sale to commercial developers with projects in the downtown office areas in exchange for a commitment that housing be brought up to housing code standards and rented to low-income tenants for 20 years. (DCLU 1989:92) Since its creation the bank has virtually never been used. Guthrie attributes this to the City's excessive rehabilitation requirements and the financial disincentive created when air rights to a site are sold to maintain the existing use for a fraction of the ultimate potential value of the site after redevelopment. (Guthrie Interview)

CAP's passage was a strong negative comment by the citizens of Seattle on the permissive growth policies of the 1980s and represents a bias against height and high density that is common in west coast American cities. (McKenzie Interview) CAP's passage is significant because it is a grass roots initiative voted on in a special election by Seattle residents themselves. Citizen concern over downtown growth had been building since 1982 when a coalition of community groups under the banner of the Downtown Neighbourhood Alliance (energy, transportaion, housing and neighbourhood groups) brought an interim control measure before City Council. The measure, which would have frozen downtown development until the new Downtown Land Use Plan was ready, was defeated by a six to three vote.

CAP is expected to have little visible effect on downtown development in the immediate future, most of which had already received development permit approval
before its passage, and with vacancy rates downtown already climbing the next spurt of growth is not expected to happen until after 1995. CAP did, however, set up a discussion about the growth issue and demanded more accountability from politicians concerning local and regional growth. (Fox Interview)

6.4 Current and Future Strategies

The City's current strategies for addressing the housing problem in Seattle's downtown will continue within the policy framework set out in the four goals and forty-one policies outlined in Resolution 27471 and articulated in specific programs such as the Levy's Downtown Preservation Program, the Growth-related Fund, and the housing component of the Downtown Land Use and Transportation Plan.

In particular, the City remains committed to maintaining, as a minimum, the 7,311 low-income housing units in the downtown in sound condition and at rents affordable to those with incomes at or below 50 percent of area median income. It continues to promote the growth of downtown and the growth of that area's residential population which they hope will accommodate an ultimate population of 40,000, 25,000 by the year 2000.

The City continues to promote efforts which will create a mixed-income residential neighbourhood in the Denny Regrade through capital improvements and low- and middle-income housing construction and renovation. Because the City believes that encouraging the production of moderate- and middle-income housing in low-income neighbourhoods leads to revitalization and stabilization, they are supporting state legislation which would change the state constitutional definition of "public purpose" to allow the City to use public funds to assist development of moderate- and middle-income housing downtown. (DCD 1990a:88-89)

With the relocation assistance requirement of the Housing Preservation Ordinance (the HPO was struck down by the State Supreme court in 1987) no longer
available for the City's use, the City intends to implement a new Tenant Relocation Assistance Ordinance to provide relocation assistance payments to displaced low-income tenants. In addition, the City hopes to be able to provide financial assistance to tenants facing eviction as a result of stricter enforcement of the City's housing code. (DCD 1990a:77)

In the future, the preservation and maintenance of existing affordable housing will remain a top priority of City housing programs. To achieve this end, the City will work to promote the transfer of privately owned low-income housing to nonprofit ownership; will support a constitutional amendment which goes before voters in November, 1990, to allow taxation of low-income housing at its current use value; will implement the lease/option component of the TDR Bank Program; will concentrate resources on rehabilitation of vacant buildings that are most viable for return to housing use because of condition, location, and owner cooperation; and finally, will study the cost and viability of converting downtown commercial buildings to residential use. (DCD 1990a:77 & 89)

6.5 Summary

This chapter discussed the City of Seattle's housing programs designed both to generate and leverage revenues to replace lost federal funding and to address downtown's severe housing problems.

Chapter Seven provides concluding comments on the findings of both the literature review and the case study and offers thoughts as to the relevance of these findings to the Canadian municipal experience.
PART III: CONCLUSION

CHAPTER SEVEN

7.1 The Local Response Nationwide

The review of the U.S. literature on municipal housing initiatives reveals the emergence of a new delivery system for low-income housing consisting of formally structured partnerships among the public, community-based, philanthropic, corporate and financial sectors. Over the past decade local governments have increasingly recognized housing needs as a legitimate area of local concern and have responded by designing new housing programs, dedicating a growing share of local revenues to the problem and by aggressively and creatively seeking out new and dependable revenue sources. Because of the rising costs of new construction, local housing programs have typically focused on preserving existing units, residential rehabilitation, rather than on new construction. The new financing schemes identified at the local level tend to be dependent on local housing conditions and financial markets and are usually more complex. For these reasons they are not necessarily replicable.

The new delivery system depends on the dedicated efforts of a growing nonprofit sector which includes nonprofit housing developers, community development corporations, nonprofit technical resource groups, national social intermediaries and the philanthropic community.

These groups have been aggressively opportunistic and entrepreneurial in their approach. They have learned the art of mutual leveraging, spreading scarce resources thinly, to finance low-income projects. In 1987, 29 percent of all rehabilitated units required funding from multiple sources, compared to a negligible percent in 1980. (Christensen 1988:13) They have become adept at incorporating volunteer labour and material, and charitable grants into projects to reduce costs and
make housing affordable to those with the lowest incomes. The national social intermediaries, LISC and the Enterprise Foundation, have created innovative investment opportunities for charitably-minded investors willing to accept a reduced rate of return, in order to fund their technical assistance programs which build the capacity of local CDCs and nonprofits.

Unfortunately, for all the hard work and creativity that has gone into developing low-income housing over the past decade local programs have been able to meet only a fraction of the country’s housing needs. Creative financing techniques such as leveraging have only served to create an illusion of productivity and charitable donations cannot be depended upon to build an ongoing delivery system. Some observers argue that the growing involvement of the charitable sector, while filling a desperate need, has only served to absolve the federal government of its rightful responsibility for housing its low-income citizens. Most agree that only the long term commitment of federal funds will stem the growing tide of homelessness, expected to reach 18.7 million by the year 2003, and provide the national standards and policies needed to direct private funds into housing. (Greer 1988)

7.2 The City of Seattle’s Response

The City of Seattle’s response to both the loss of federal housing dollars and to its own housing crisis has closely followed the national experience. Local government has increasingly taken responsibility for addressing some aspects of the local housing problem. It has dedicated a growing share of general revenues to local housing programs. It has indeed, replaced at least in part, lost federal programs with innovative production programs of local origin which stress preservation over new construction.

The City of Seattle, however, cannot take all the credit for the variety and innovation of its housing programs. In many cases the City has simply reacted to
the well organized lobbying of Seattle’s low-income housing advocates. The Housing Preservation Ordinance, tenants rights legislation, mitigation negotiations with developers, the demolition moratorium, and the City’s use of general revenues for housing development can all be directly attributed to the efforts of the Seattle Displacement Coalition.

As has been the case nationally, Seattle’s housing programs, despite their innovation, have not been able to generate enough revenues to significantly impact the City’s overall housing need. One-time appropriations like the Housing Levy and the SSHP have served only to fill the funding gap left by the federal withdrawal and have not created ongoing revenue streams for future housing development. In addition, the City’s policies and programs which targeted the largest percentage of housing resources to preserving downtown’s existing affordable units have been slow to impact the housing problem there. Stabilization of downtown’s remaining low-income units has only just been achieved in 1990 after seven years of programs in place to address the demolition problem. The City’s difficulty in arresting downtown demolition and abandonment of low-income housing has less to do with the efficacy of the programs in place and more to do with the City’s competing policy objectives for the downtown area as a whole. Policy decisions which facilitate downtown’s continued growth, such as the new comprehensive plan, have created a situation where land is a thousand times more valuable than an ageing building. There are tremendous profits to be made by landlords who let their low-income buildings deteriorate and well-meaning rehabilitation-loan programs, and charitable lease agreement between a nonprofit and an owner cannot be expected to overcome the force of downtown’s intense development pressures.

There are five important lessons to be learned from Seattle’s handling of its downtown housing problem:

1) Only by choosing policies which constrain downtown
expansion or work to decentralize its economic and commercial activities can redevelopment pressures be taken off the downtown residential neighbourhoods. The eighteen month moratorium on demolition and change-of-use permits for low-income housing effectively removed that pressure and stabilized the remaining low-income units downtown for the first time in seven years.

2) Given the high cost of land in Seattle's downtown, the City's decision to preserve the remaining low-income stock was the least cost effective use of scarce public housing dollars. Had they spent those dollars in an inner city neighbourhood less directly pressured by redevelopment, costs would have been less and more people could have been housed.

3) By targeting its subsidies almost exclusively to the downtown the City has not allowed low-income households a choice in where they wish to live. Households with children are forced to live downtown, primarily in SRO hotels, simply because this is the only housing that is affordable.

4) The impact of a growing downtown economy cannot be confined to the downtown area. The battleground in Seattle has recently moved to the neighbourhoods, where apartment and commercial development have begun displacing traditional low- and moderate-income housing. A city's housing problems cannot,
therefore, be considered in isolation and a truly comprehensive housing program must involve the neighbourhoods.

5) Low-income housing in a downtown residential neighbourhood experiencing extreme development pressures can only be saved by formal anti-abandonment legislation such as the Housing Preservation Ordinance or the demolition moratorium. Incentive-based linkage programs, such as Seattle's Housing Bonus Program, cannot be depended upon to relieve the situation in the short term.

The City of Seattle should take pride in its efforts to address its local housing problem. With limited experience in dealing with housing issues the City took a leadership role, identified specific housing goals, and designed programs to meet them. While they have been unable to meet all of their housing objectives and have made mistakes along the way without their efforts all affordable housing in downtown neighbourhoods would have been lost to redevelopment.

7.3 Lessons for Canadian Municipalities

Canadian municipalities can learn from Seattle's experience. There are measures a city can take to protect its resource of downtown low-income housing if the political will exists to do so. First and foremost it can begin a community-wide debate about local housing needs and priorities to determine appropriate policy direction.

If preservation of downtown housing is identified as a priority a city can commit itself, as Seattle did, to maintaining a minimum number of affordable downtown units and allow itself to be held accountable for that number. It can
dedicate a share of locally generated revenues to downtown low-income housing preservation and rehabilitation programs. It can develop a housing trust fund and capitalize it with charitable investment, grants or donations and dedicate the funds to preserving downtown low-income housing.

If a city's legislative powers restrict its use of measures such as a preservation ordinance they can design programs which work to facilitate nonprofit ownership or lease of low-income buildings. It can lobby at the provincial level for changes in the local municipal act to allow the city powers to legally enforce preservation legislation or a mandatory linkage program. If the city decides that preserving their downtown's remaining low cost units is not feasible they can work with the neighbourhoods to integrate low-cost housing there.

As the American experience has shown, a municipality is not likely to be able to generate the resources needed to solve their local housing problem, but there is a wide variety of measures available, some which require no contribution of local dollars at all, that can address some aspects of the problem.

7.4 A Housing Strategy for the 1990s

The past decade has witnessed dramatic changes to the low-income "housing game" in the United States. New neighbourhood-based organizations have emerged to help fill the vacuum created by the increasing withdrawal of the federal government from the housing of low-income people. State and local governments, the "old players" of the housing game, are rethinking their traditional role and many now recognize housing needs as a legitimate call on their resources. With housing programs no longer tailored to encourage their participation, large for-profit developers have dropped out of the housing game altogether.

These changes in the low-income housing delivery system, however, have not been able to generate enough revenue to maintain an adequate supply of affordable
units. There is no question that the number of low-income units being produced today falls far short of the number needed. In recent years, fewer than 25,000 new low-income units have been produced annually. This compares with a million new, federally subsidized units produced between 1976 and 1982.

Since the efforts and resources generated at the local level over the past decade have proven inadequate we are left to question what housing strategy would be most appropriate for the 1990s to reduce homelessness and avert a deepening of the housing crisis and what role should the federal government play in the strategy? How best can states and localities participate in a new housing strategy to take advantage of their first-hand experience gained over the past ten years? What role exists in the new strategy for the nonprofit sector and the private for-profit sector?

A new more effective housing strategy will require the federal government to acknowledge the right of its low-income citizens to decent, affordable housing, assume a leadership role and again commit significant resources to affordable housing. The new strategy will build on the innovations of the past decade and will work to facilitate new public-private partnerships, will leverage other money from states, cities, and the private sector and will use federal funds to stimulate and support local initiatives and local public-private partnerships. Tax benefits and grants will be a necessary part of the strategy to bring for-profit developers back into the equation. The new housing strategy will work to build capacity in the nonprofit housing sector which has proven itself capable of lowering costs and creating housing that is affordable in the long-term. Local governments, now well qualified to identify and respond to local housing needs and conditions, will be encouraged to design and manage their own housing programs whenever possible within a well defined set of federal goals, performance criteria, and requirements.
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APPENDICES
APPENDIX A-1

The 51 Most Populated U.S. Cities: FY89 Locally Generated Dollars Dedicated to Housing

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<thead>
<tr>
<th>City</th>
<th>1986 Population</th>
<th>Local Dollars Spent: FY89</th>
<th>Total Spent Per Capita</th>
<th>Number of New Units*</th>
<th>Number of Rehab Units</th>
<th>Total Units</th>
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<td>10,136</td>
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<td>City</td>
<td>1986 Population</td>
<td>Local Dollar Spent FY89</td>
<td>Total Spent Per Capita</td>
<td>Number of New Units*</td>
<td>Number of Rehab Units</td>
<td>Total Units</td>
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<td>Oakland, CA</td>
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<td>Toledo, OH</td>
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<td>Virginia Beach, VA</td>
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<td>Sacramento, CA</td>
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<td>Newark, NJ</td>
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<td>Wichita, KS</td>
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<td>0</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>40,791,960</td>
<td>938,284,104</td>
<td>23.00</td>
<td>18,658</td>
<td>16,059</td>
<td>34,717</td>
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</table>

* For the purposes of this table, these are newly created units and are defined as new construction and gut rehabilitation of vacant units.  

(Berenyi 1989:iii-iv)
## Local Off-Budget Housing Strategies
(Reported by City Officials)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Yes</th>
<th>No</th>
<th>Unknown</th>
<th>Missing</th>
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<tbody>
<tr>
<td>Density Bonus</td>
<td>18%</td>
<td>63%</td>
<td>3%</td>
<td>16%</td>
</tr>
<tr>
<td>Developer Fees</td>
<td>14%</td>
<td>66%</td>
<td>3%</td>
<td>17%</td>
</tr>
<tr>
<td>Special Taxes</td>
<td>8%</td>
<td>71%</td>
<td>3%</td>
<td>18%</td>
</tr>
<tr>
<td>Other Financial</td>
<td>14%</td>
<td>60%</td>
<td>8%</td>
<td>18%</td>
</tr>
<tr>
<td>Consortium of Nonprofits</td>
<td>14%</td>
<td>60%</td>
<td>8%</td>
<td>18%</td>
</tr>
<tr>
<td>Rent Control</td>
<td>12%</td>
<td>71%</td>
<td>2%</td>
<td>15%</td>
</tr>
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</table>

(Christensen 1989:25)
APPENDIX A-3

Anatomy of Boston’s Multi-Source Rehabilitation Project

Year formed: 1983

Partners: City of Boston
Local Lenders
Major Insurance Companies
Investment Bankers
Neighborhood-Based Housing Organizations

1985-87 To rehabilitate 701 apartments in 69 buildings in
10 neighborhoods;
Program: City acquires these abandoned properties through
tax foreclosure.

Average Development Cost per Unit: $51,000

Project
Developers: Neighborhood-based organizations

Rent subsidies:
  o 15-year state rent subsidy program
  o Federal Section 8 certificates
  o $22.3 million in tax-exempt financing through the
    Massachusetts Housing Finance Agency
  o $856,000 in annual interest subsidies provided under
    the State Housing Assistance for Rental Production
    (SHARP) program
  o Letters of credit to secure portions of the finance package
    from four Boston-area banks
  o $1.9 million in interim loans from the Local Initiatives
    Support Corporation, the Massachusetts Community
    Development Finance Corporation, and a Ford Foundation
    program-related investment.

Grants:
  o $4.5 million in CDBG funds from the city of Boston
  o $430,000 from corporations and private foundations,
    including the Boston Foundation, Hyams Trust, the Riley
    Foundation, the Public Welfare Foundation, and the Local
    Initiatives Support Corporation.

Equity:
  o $8.8 million raised through syndication through two-tier
    partnership structure.

Beneficiaries:
  o All units low- and moderate-income; average rent $300.
    (Christensen 1988:16)
### General Statement of Purpose:

**Housing is a fundamental need and basic public concern. The City of Seattle has a responsibility, in cooperation with the federal, state and county governments and the private sector, to pursue decent, safe, sanitary, and affordable housing as a reality for all Seattle residents.**

### City Goals:

<table>
<thead>
<tr>
<th>Assure an Adequate Supply of Housing</th>
<th>Responsive to People's Needs</th>
<th>In Livable Neighborhoods with a Variety of Housing Choices</th>
<th>Maximizing Public and Private Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Give priority to preservation and maintenance of the existing housing stock in the planning and implementation of City housing programs.</strong></td>
<td><strong>Give priority to assisting households most in need, either because such households are very low-income or because such households have special needs that the market is unable to serve.</strong></td>
<td><strong>Assure an aggressive policy of non-discrimination in the sale or rental of housing in accordance with City, State, and Federal law, and encourage integrated housing throughout the city.</strong></td>
<td><strong>Pursue a comprehensive strategy which maximizes public and private resources to provide affordable housing opportunities.</strong></td>
</tr>
<tr>
<td><strong>Encourage the private sector to produce housing responsive to needs identified by the City, as well as general market demand.</strong></td>
<td><strong>In assisting households most in need, give priority to serving those needs having a significant impact on the City.</strong></td>
<td><strong>Provide people with a variety of housing choices and opportunities throughout the city.</strong></td>
<td><strong>Consider the impact of all city policies and plans, including those related to land use and zoning, transportation, recreation, education, public safety, and environmental management, with regard to their impact on housing and neighborhoods.</strong></td>
</tr>
<tr>
<td><strong>Facilitate permit processing.</strong></td>
<td><strong>Apportion public funds primarily to provide long-term, low-income housing opportunities for people, and secondarily for transitional housing and emergency shelter.</strong></td>
<td><strong>Direct production of assisted housing to achieve a geographic balance in siting assisted housing throughout the city.</strong></td>
<td><strong>Provide for centralized planning and coordination of housing programs and initiatives within the City of Seattle.</strong></td>
</tr>
<tr>
<td><strong>Assess the impact of new and existing codes, regulations, and enforcement policies with a view to achieving a proper balance of housing cost and environmental objectives.</strong></td>
<td><strong>Provide subsidies for operating costs only for City-funded projects expected to be available long term for very low-income housing.</strong></td>
<td><strong>Direct production of assisted housing to achieve a geographic balance in siting assisted housing throughout the city.</strong></td>
<td><strong>Work with the county and suburban jurisdictions to promote regional siting and dispersal of low-income housing opportunities both in Seattle and in the region.</strong></td>
</tr>
<tr>
<td><strong>Focus public housing expenditures on new construction and rehabilitation to meet needs not being met by the private sector.</strong></td>
<td><strong>Discourage displacement of low-income households citywide.</strong></td>
<td><strong>Provide adequate notice and discussion of assisted housing proposals which may affect specific neighborhoods.</strong></td>
<td><strong>Provide for centralized planning and coordination of housing programs and initiatives within the City of Seattle.</strong></td>
</tr>
<tr>
<td><strong>Implement housing programs that are economically feasible and cost effective.</strong></td>
<td><strong>Encourage participation of program beneficiaries in the development of housing programs.</strong></td>
<td><strong>Link assisted housing production to neighborhood improvement strategies where appropriate.</strong></td>
<td><strong>Assess people's housing needs and maintain data on the City's low-income housing stock on a continuing basis.</strong></td>
</tr>
<tr>
<td><strong>Provide public funds primarily to provide units which will remain permanently or long-term in low-income use.</strong></td>
<td><strong>Encourage participation of program beneficiaries in the development of housing programs.</strong></td>
<td><strong>Encourage home ownership for low- and moderate-income households where this will meet other City social policy objectives and neighborhood improvement goals.</strong></td>
<td><strong>Work with the Housing Authority, public development authorities, nonprofit agencies, and the private sector to plan, administer and implement City programs.</strong></td>
</tr>
<tr>
<td><strong>Utilize the City's housing, health, and safety codes to prevent deterioration and maintain the existing housing stock.</strong></td>
<td><strong>Discourage residential demolition and promote replacement of lost affordable housing.</strong></td>
<td><strong>Encourage home ownership for low- and moderate-income households where this will meet other City social policy objectives and neighborhood improvement goals.</strong></td>
<td><strong>Foster and develop viable, non-profit organizations capable of developing and managing low-income housing.</strong></td>
</tr>
<tr>
<td><strong>Assure an adequate supply of housing throughout the city.</strong></td>
<td><strong>Seek new or rehabilitated low-income housing to mitigate indirect as well as direct impacts of major public projects.</strong></td>
<td><strong>Link housing production goals with targeted programs, populations, and neighborhoods to the extent they are responsive to a comprehensive needs assessment for the City.</strong></td>
<td><strong>Use public funds to leverage contributions of private equity and credit to produce low-income housing.</strong></td>
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<td><strong>Give priority to preservation and maintenance of the existing housing stock in the planning and implementation of City housing programs.</strong></td>
<td><strong>Use the exiting housing stock to meet needs of low-income people wherever feasible.</strong></td>
<td><strong>Provide subsidies for operating costs only for City-funded projects expected to be available long term for very low-income housing.</strong></td>
<td><strong>Work with the County and suburban jurisdictions to promote regional financing of housing for low-income people in Seattle and throughout the region.</strong></td>
</tr>
</tbody>
</table>