

# **STRENGTHENING HOUSING INVESTMENTS FOR COMMUNITY REVITALIZATION: Research for Massachusetts Policy and Practice**

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The Massachusetts Department of Housing and Community Development (DHCD) encourages the development of affordable rental projects serving both families and individuals with low incomes. State and federal Low Income Housing Tax Credits (LIHTC) are critical tools in this work.<sup>i</sup> The Department administers these public resources, working in partnership with communities and Massachusetts' rich affordable housing development community. Together, tens of thousands of affordable units have been built and preserved.

At the same time, the Department recognizes the challenges and opportunities in our communities. First, Massachusetts faces ongoing shortages in production and rental markets with skyrocketing rents and shrinking vacancies. Second, children and families living in distressed communities face measurable costs to their future well-being.<sup>ii</sup> A considerable share of the state's affordable housing stock is located in high-poverty communities with high housing needs. Therefore, ways to improve these neighborhoods are needed, as well as strategies to expand opportunities in lower poverty communities often richer in the resources needed for family well-being. Limited housing resources demand their careful use and targeting.

DHCD sought to inform its affordable housing production policies and practices for neighborhood revitalization, amidst this backdrop. They commissioned a multifaceted study to bring rigor to their seasoned thinking and experience. This brief summarizes findings on what is known, nationally, about 'spillovers' from publicly subsidized production. It also presents the experiences of three Massachusetts developers, in partnership with local communities, striving for larger community revitalization gains from affordable housing projects. Finally, this brief summarizes DHCD's current revitalization goals and practices and opportunities for enhancement.

**TABLE 1**  
**CASE STUDY OF RECENT REVITALIZATION-FOCUSED PROJECTS**



**Cordovan at Haverhill Station**

A 146-unit, mixed-income, historic rehabilitation of a former mill building in downtown Haverhill – a Gateway City - completed by the for-profit, national, multi-purpose housing organization, Beacon Communities, in 2008.



**Dudley Village (North & South)**

New, 50-unit, 100% affordable, family properties including commercial space, located on opposite sides of Dudley Street (Boston) and close to the Uphams Corner commercial district and commuter rail station. Completed by the multi-purpose community development organization, Dorchester Bay Economic Development Corporation (DBEDC) in 2008.



**St. Joseph's Apartments**

A 15-unit, 100% affordable, adaptive reuse project of a vacant, historic school building, in the Upper Merrimack Street neighborhood abutting downtown Lowell – a Gateway City - completed by the multi-purpose community development organization, Coalition for a Better Acre (CBA), in 2008.

## EVIDENCE FROM THE FIELD: NEIGHBORHOOD SPILLOVERS OF LIHTC PROJECTS

Recent, high quality research evidence on neighborhood spillovers from LIHTC developments supports their use in revitalization efforts in high poverty neighborhoods.

- Producing LIHTC housing in high poverty neighborhoods<sup>iii</sup> positively impacts the immediate surrounding neighborhood – in terms of modest property value gains and increased safety. Less evidence exists about impacts on school quality and neighborhood income diversity.
- Projects eliminating blight can be particularly powerful, as can larger projects (up to a point), with impacts from both new construction and rehabilitation projects.<sup>iv</sup>
- Producing LIHTC housing in high income areas has no effect on crime.<sup>v</sup> In high income neighborhoods, LIHTC projects have small negative effects on nearby house prices (declines of 2.5%), but not in communities that are also racially diverse.

After LIHTC developments are completed in high poverty neighborhoods, nearby housing prices increase by more than six percent.

## EXPERIENCES ‘ON THE GROUND’: ENLISTING HOUSING FOR NEIGHBORHOOD REVITALIZATION IN MASSACHUSETTS

Three ‘recent’ LIHTC-funded production projects were examined as part of the study – including a review of project documents, interviews with sponsor staff, analyses of neighborhood data, and a media scan.<sup>vi</sup> All had explicit neighborhood revitalization goals or were part of larger revitalization efforts and were located in distressed and at-risk neighborhoods at the time of application.

### THE THREE STUDY PROJECTS HAVE MUCH IN COMMON WHILE ALSO DEMONSTRATING A GOOD DEGREE OF VARIATION.

- All three sites included vacant properties with some degree of blight. They are consistently surrounded by neighborhoods that were facing challenges, across multiple dimensions, in the period leading up to and including project completion (2005-2009). However, all the host neighborhoods had recognized assets. All three are proximate to transportation and both of the Gateway City<sup>vii</sup> projects are in neighborhoods with a strong physical fabric.
- Study projects are in diverse locations including neighborhoods in Gateway Cities and Boston, and range in size (from a low of 15 units to a high of 146) resulting from either new construction or adaptive reuse and yielding either purely residential or mixed-use properties.

- Sponsors of study projects include nonprofit and for-profit organizations, as well as those embedded in their communities and those working nationally.

**MASSACHUSETTS' HOUSING BASED REVITALIZATION DOESN'T APPEAR TO FOLLOW A SET RECIPE.**

Rather, it is designed in light of surrounding market conditions, the existing community revitalization effort, and developer organizational capacity and focus.

- Approaches to community revitalization range from a narrow housing-driven approach to a more comprehensive planning approach combining brick and mortar solutions with a range of social investments.

**ALL OF THE NEIGHBORHOODS SURROUNDING STUDY PROJECTS EXPERIENCED ADDITIONAL NEIGHBORHOOD IMPROVEMENTS OR REAL ESTATE DEVELOPMENT IN THE EARLY YEARS AFTER PROJECT COMPLETION.**

Early housing market and economic vitality outcomes (2009-2013) are mixed.

- Given the short time since project completion and study projects' small scales relative to surrounding neighborhoods, neighborhood level changes are not anticipated at this point. The economic downturn over the study period also makes it hard to meaningfully assess changes before and after project completion. Changes relative to those in the surrounding cities (and Counties) were used a way to disentangle.
- All study neighborhoods remain challenged today (2009-2013). Early housing market and economic vitality outcomes are mixed in study neighborhoods.

**STATE POLICY AND PRACTICES:  
DHCD REVITALIZATION PRIORITY**

DHCD oversees the distribution of most of the affordable housing funds controlled by the Commonwealth, and directly allocates 9% low-income housing tax credits. Meanwhile, MassHousing, the state housing finance agency, along with MassDevelopment, administers the 4% credits and has the ability to fund projects with tax-exempt bond financing. Smaller technical assistance and predevelopment loans and grants are available through the Community Economic Development Assistance Corporation (CEDAC) and MassHousing Partnership. DHCD issues an annual federally-required Qualified Allocation Plan (QAP) outlining selection criteria when awarding credits. Of relevance here, the federal statute requires that states give "preference" to projects that are located in qualified census tracts subject to a community revitalization plan. However, it leaves to the states the question of what constitutes such a plan.

**WHILE EMBRACING A NOTION OF REVITALIZATION-FOCUSED DEVELOPMENTS, DHCD CAN SHARPEN GOALS AND TOOLS TO ADVANCE IT.**

- DHCD housing development staff embraces the agency mission of ‘promoting stronger neighborhoods and stronger communities.’ However, the agency lacks an articulated community revitalization goal and a detailed definition of a revitalization-focused project.
- DHCD enlists the QAP as a tool to advance community revitalization priorities to a relatively limited degree.
- DHCD lacks readily accessible and systematic data on the number and portion of revitalization-focused applications and awards.

**DHCD STAFF AND PARTNERS HAVE A GOOD FOUNDATION FOR FURTHERING REVITALIZATION PRIORITIES.**

- DHCD housing development staff shares a vision of DHCD’s role in community revitalization and the larger processes of neighborhood change.
- DHCD staff enables open engagement with sponsors during project conceptual stages, reinforcing the good degree of familiarity within this professional community.
- Collaboration is a feature of DHCD’s affordable housing investments.

**LOOKING FORWARD**

The well-being of our neighborhoods is a shared charge for DHCD, Massachusetts project sponsors, and local communities – at a minimum.

- **DHCD** is encouraged to set revitalization goals, absolutely and relative to its other responsibilities and priorities. Enlist QAP components for incentivizing and targeting investments consistent with those goals. Track and report on annual revitalization-focused awards to support agency progress. Regularly report on progress to augment arguments to Massachusetts policy makers for continued or increased investment in affordable housing in distressed neighborhoods.
- **The Massachusetts Affordable Housing Development sectors** could collectively develop research and practice-based guidelines for designing revitalization approaches in different contexts.

This study focuses on the role of subsidized production in distressed neighborhoods for promoting greater access to opportunity for Massachusetts’ families with low incomes. Additional policies enlist subsidized production in high opportunity neighborhoods for increased access to opportunity. Finding the right balance between these two approaches (in addition to other low-income housing tools) in our dynamic community is an important challenge for our community and DHCD. While this study does not speak directly to this critical policy question, this information on revitalization-focused housing production is one important piece of the puzzle. ■

[Read the full report at www.chapa.org](http://www.chapa.org)

## ACKNOWLEDGEMENTS

This brief and the research upon which it is based are funded by The Boston Foundation, the Citizens' Housing and Planning Association (CHAPA) and, with direct participation by DHCD. A broad-based Advisory Panel, established in October 2014, shaped the scope and conduct of the research.

The authors gratefully acknowledge the many contributions by others to better understanding revitalization-focused investments in affordable housing production. We are tremendously grateful to the sponsors of study sites for their willingness to participate and connections to staff and consultants. Project leads at study sites generously shared their documents, insights, and not least of which, their time. Brenda Clement, of CHAPA, generously shared organizational resources and guidance smoothing study progress. Current and past DHCD staff were generous with information about agency practices and precious (and remarkably retained) facets of study projects. Two recent graduates – Carlota Melo and Sam LaTronica – provided invaluable brain and manpower in the analysis of neighborhood indicators and case study interviews. Our panel of advisors provided their substantive expertise, certainly increasing the quality of the work. In particular, Prof. Keren Horn was a sharp eye and critical economics expert in the execution of the literature review. Ann Houston carefully reviewed early tools for collecting information from projects – ensuring we were clear and were able to collect key information. Several other individuals generously helped with the execution of the study, including Bertha Borin (DHCD), Jessica Dellert (MHP), John Gaviglio (UMass Donahue Institute), Ezra Glenn (MIT), Henry Joseph (Housing and Community Development Consultant), Jo-Ann Moriarty (DHCD), Monique Johnson (VA Commonwealth University), Corianne Scally (Urban Institute), and Karen Weiner (CHAPA).

September 2016.

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<sup>i</sup> LIHTC provides tax incentives to encourage individual and corporate investors to invest in the development, acquisition, and rehabilitation of affordable rental housing. The LIHTC is an indirect federal subsidy that allows investors to claim tax credits on federal income tax returns. The equity raised can be used for affordable rental-housing properties for low-income households, and for the acquisition of such properties in acquisition/rehabilitation deals.

<sup>ii</sup> Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. 2015. *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment*. Cambridge: Harvard University. Accessed at [http://www.equality-of-opportunity.org/images/mto\\_paper.pdf](http://www.equality-of-opportunity.org/images/mto_paper.pdf).

<sup>iii</sup> Studies vary in their definition of neighborhoods with respect to opportunity – roughly, high poverty > 40 %, moderate 11-39%, low poverty <10%

<sup>iv</sup> Diamond, Rebecca, and Time McQuade. 2015. "Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low Income Property Development." Stanford University, Graduate School of Business.

<sup>v</sup> Diamond & McQuade, 2015; Albright, Len, Elizabeth S. Derickson, and Douglas S. Massey. 2013. "Do Affordable Housing Projects Harm Suburban Communities? Crime, Property Values, and Taxes in Mount Laurel, NJ." *City & Community* 12 (2): 89–112.

<sup>vi</sup> All study projects were completed between 2007 and 2009.

<sup>vii</sup> "Gateway Cities" are defined by state legislation as municipalities with a population of 35,000-250,000, a median household income below the state average and a rate of educational attainment (bachelor's degree or above) below the state average. Poverty rate is not part of the definition. The State has a variety of programs to promote economic development and housing in these municipalities. <http://www.mass.gov/hed/community/planning/gateway-cities-and-program-information.html>