

Measuring the Economic Impact of Community-Based Homeownership Programs on Neighborhood Revitalization

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A Collaboration between



*The Local Initiatives
Support Corporation's
Center for Home Ownership*

and



*George Mason University's
School of Public Policy*

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Question:

Is it possible to quantify the impact of community development organizations' low-income homeownership programs on neighborhood revitalization

Foreword

Community development corporations (CDCs) have been improving neighborhoods for years. *Comeback Cities*, a recent study of the increasing vitality of American cities by Paul Grogan and Tony Proscio, observes that “CDCs are actually a way for ordinary people to change, create, and make use of market forces to alter the fundamental economics of their neighborhoods... They are among the most effective vehicles for public investment in the inner city.”

True. But while there is abundant anecdotal evidence of CDCs' effectiveness, the development of methods to systematically measure their economic impact has not kept pace. This analysis takes an important first step toward establishing a generally acceptable methodology to quantify their value as engines of economic revitalization.

The case studies presented here are of neighborhoods that have experienced positive change as a result, in large part, of CDC interventions. They were among a num-

ber of communities identified by Local Initiatives Support Corporation (LISC) program officers as having notably effective CDC affordable housing programs.

Anyone involved in creating housing and homeownership programs, in neighborhoods struggling to maintain or restore their viability, knows that the ripple effects extend far beyond the initial construction or rehabilitation of shelter. Affordable housing and homeownership initiatives can stabilize a neighborhood, increase real estate values, stimulate local business development, and reduce crime.

All this we know from experience, but experience alone does not give us all the tools we need to systematically promote the most effective use of CDC resources, identify best practices, and attract greater public and private support for CDC initiatives. This report is a good start at giving us the additional tool of measurement. Further research will be needed to refine and augment the approach outlined here.

This is the first in a series of working papers sponsored by LISC's Center for Home Ownership. LISC is pleased to be collaborating with George Mason University's School of Public Policy, which is committed to supporting research that makes substantive contributions to the development and implementation of public policy, both at the national level and in the Washington, D.C., region. The author, Lindley R. Higgins, is a doctoral candidate at the School of Public Policy and an independent consultant specializing in studies of low-income housing and urban economic development. Our thanks to him for carrying out a difficult assignment and producing an exemplary report.

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Executive Summary

Community-based efforts to revitalize neighborhoods have had a significant impact on many of the nation's inner cities. However, the community development corporations (CDCs) leading these efforts are increasingly called upon to demonstrate their impacts in quantitative, economic terms. This research focuses on two questions:

- Can the impact of community-based homeownership efforts be quantified in terms of *economic indicators*?

- Are there identifiable *thresholds of development* at which changes in these indicators accelerate?

The first question is raised by the need for community-based organizations to move beyond anecdotal information in demonstrating that their efforts have an impact. The ultimate aim of this line of inquiry is to develop a method that community groups can use to demonstrate their impact in quantitative terms. The second question addresses the dynamics of revitalization: Is there an identifiable point at which community development efforts, by changing the perceptions about a neighborhood, begin to attract more private, profit-seeking investment that triggers a synergistic acceleration of recovery and development?

Five case studies of urban neighborhoods – in Kalamazoo, Houston, Seattle and Washington, D.C. – are analyzed. In each of these cases, community-based organizations, primarily CDCs, created a significant amount of affordable for-sale housing. Data were gathered on the timing and location of this housing development and the effect of this development on three indicators:

- residential real estate markets;
- commercial activity; and
- crime rates.

Interviews were conducted with individuals who were closely involved with economic change in the neighborhood, including bankers, local government officials and community representatives, to help understand the impact of the housing development on these three indicators.

Preliminary research findings were presented and critiqued at a roundtable of community development academics and practitioners.

The evidence suggests that in four of the five case studies, community-based for-sale housing development had a demonstrable impact on the neighborhood economy and that this development was the primary driver of revitalization. While residential real estate values were significantly changed in only three of these cases, other indicators of positive impacts on the real estate market were noted in all four. (Single-family or single-unit townhouses were used to estimate the change in real estate prices in two case studies; mortgage amounts were used in the other three.) Retail sales were positively affected in the two cases where such data were available. Crime incidences showed sharp declines in three cases.

Residential real estate prices changed significantly in the Seattle case, with the average price for a single-family home doubling in a three-and-a-half year period, compared to an increase of about 30 percent in the city as a whole. This increase is evident even when accounting for the size of the house and inflation, with median price per square foot in the neighbor-

hood increasing by more than 50 percent between 1996 and 1999 in constant dollars. However, the portion of home sales under \$100,000, which had averaged more than 25 percent in the neighborhood from 1991 to 1996, declined to less than 10 percent by 1999 (constant dollars). In addition, between 1995 and 1999 the price of rental units increased at twice the rate of the city as a whole.

In the Washington, D.C., case, real estate prices in one part of the neighborhood examined did increase significantly, but the interviewees attributed much of that change to factors other than CDC homeownership programs. Residential real estate prices did not show any increase in the other part of the neighborhood, particularly after accounting for inflation and home size. For two of the other three case studies—one of the two in Kalamazoo and one in Houston—mortgage amounts did show significant increases even when compared to increases for their counties. The other Kalamazoo case study showed sharp increases in number of mortgages originated and buyer income between 1998 and 1999.

In regard to commercial activity, the Seattle case study also showed a large increase in both retail sales and commercial real estate sales. Retail sales in the neighborhood more than doubled between 1996 and 1999 compared to 32 percent in the city as a whole. The value of commercial real estate sales also doubled in value to an average of \$8 million per year between 1996 and 1999 after having averaged less than \$4 million per year for the previous 10 years.

In the Houston case, indicators of

certain types of retail sales improved steadily, starting a few years after the for-sale housing development began. Sales of building materials and furniture increased at a much greater rate in the neighborhood than in the city as a whole. Sales of building materials increased four-fold for one neighborhood zip code between 1992 and 1999, while increasing 75 percent citywide (in constant terms). Sales of furniture in another neighborhood zip code increased over 150 percent between 1996 and 1999 while increasing only 9 percent citywide.

Retail sales data were not available for Washington, D.C., or Kalamazoo, and the data on commercial real estate sales did not lend itself to any meaningful analysis.

Crime rates declined in the neighborhoods at greater rates than their cities for three of the five cases. In Seattle, total incidences of crime declined precipitously between 1997 and 1998, dropping 53 percent in the neighborhood compared to 6 percent in the city as a whole. In Houston, incidences of violent crime decreased 34 percent in the neighborhood compared to 4 percent citywide between 1996 and 1999. In one Kalamazoo neighborhood, total crime incidences declined 25 percent compared to 14 percent citywide between 1996 and 1999, while in the other neighborhood the change in the number of incidences was close to the citywide rate of change. Crime rates in Washington, D.C.'s Shaw did not decrease at the rate they did for the city as a whole.

A development threshold was clearly reached only in the Seattle case study, although the Houston case and one Kalamazoo case did show some signs that a threshold may have been reached. The research yielded some insights regarding factors that may play an important role in reaching a threshold. These include the concentration in space and time of housing development, whether the housing

developed is new construction or rehabilitated, proximity to the central business district (particularly where commuter traffic is a problem), and the baseline economic conditions of the neighborhood when housing development began.

The case studies also showed that revitalization efforts, particularly where a development threshold is reached, can create an impetus for gentrification to occur in the neighborhood, with attendant problems. In Seattle, the strengthening of the real estate market also caused a reduction in the amount of affordable housing available for sale or rent, which could cause the displacement of residents. In Washington, D.C., community-based housing development may have contributed to significant increases in prices in the neighborhood, though it is likely that other factors were more important. The problems caused by gentrification raise concerns about reaching a development threshold, and the research highlights some factors that may help to predict where gentrification is a threat.

The research also examined how the fiscal impacts of for-sale housing development can be estimated. The development and sale of housing provides government revenues through sales taxes on building materials and furniture, transfer taxes on home sales, and property taxes, which increase as property appreciates. For example, furniture sales in the Houston neighborhood, which doubled between 1998 and 1999, provided an estimated \$180,000 in additional sales taxes. In the Seattle case, housing price increases may have provided an average of an additional \$1,000 per house in property taxes because of the steep increase in housing values.

The roundtable discussion of the preliminary findings highlighted both the strengths and weaknesses of this type of research and suggested areas needing further analysis. The primary

weaknesses identified were the lack of a *counterfactual* (comparing a similar neighborhood without CDC for-sale housing development); the difficulty in establishing a *causal link* between the housing development and retail sales; the limited availability of broadly useful *baseline* data against which to track change; and the lack of analysis of what it was *about* increased homeownership that created change. Further research areas identified include: how more sophisticated methods, particularly econometric methods, might be applied to neighborhood revitalization; how Home Mortgage Disclosure Act data might be used by community groups; whether change in the retail mix or in bank deposits might be good indicators; and how the negative effects of gentrification can be mitigated.

One conclusion that can be reached from this project is that efforts to quantify the impacts of community development, while clearly necessary and valuable, require further refinement before they can supercede the anecdotal evidence upon which community development organizations have long relied. This suggests, in turn, the need to improve *both* kinds of evidence, for example by more systematically establishing baseline data against which to track both quantitative and anecdotal change. The forces acting to change the economic viability of a neighborhood for better or for worse are complex. They can be captured to some degree by quantitative analysis, but they are also the sum of the perceptions of those who live, work, and otherwise have a stake in the neighborhood. In short, an accurate portrait of change requires both objective and subjective inputs, and the goal of community developers, financiers, and researchers alike should be to develop policies and programs based on continually improving—and making balanced assessments of—both kinds of information about what works, and where, and why.

1 Introduction

Community-based efforts to revitalize neighborhoods have had a demonstrable effect in cities across the country. Community development corporations (CDCs) are growing in number and capacity, as are the organizations that support their work, including such national intermediaries as the Local Initiatives Support Corporation (LISC). As these organizations gain in capacity and experience, they are able to have a greater and more visible impact on inner-city neighborhoods, but at the same time there is also a growing need to try to capture that impact in quantitative, economic terms. This research attempts to help fill the gaps in understanding how CDCs' impact can be measured and to move the quantification process forward.

Community development involves a comprehensive approach to revitalizing distressed areas and may include such diverse activities as operating crime prevention programs, providing job training and employment services, and attracting commercial investors. However, the most common work of CDCs is the production of affordable housing, often with the aim of increasing homeownership among residents. Increasing homeownership rates is seen as an effective means for improving neighborhoods because it addresses several inter-related problems. For example, homeownership not only gives residents a greater stake in working to improve their neighborhoods, but also increases their equity by increasing property values (Rohe and Stewart 1996).

Higher rates of homeownership have been linked to greater neighborhood stability, increased political activity and even improved social behavior within the neighborhood (Ahlbrandt and Cunningham 1979, Henig 1982, Lyons and Lowery 1989, Green and White 1994, Rohe and Stegman 1994, Saunders 1990).

This research examines the impact on neighborhood revitalization of community-based homeownership programs aimed at low-income households. It addresses two primary questions:

- Can the impact of community-based homeownership efforts be quantified in terms of *economic indicators*?
- Are there identifiable *thresholds of development* at which changes in these indicators accelerate?

The first question is raised by the need for community-based organizations to demonstrate that their efforts have an impact beyond the largely anecdotal information upon which they have relied in the past. The ultimate aim of this line of inquiry is to develop a method that community groups can use to demonstrate in quantitative terms the economic impact of their housing development efforts. The second question addresses the dynamics of revitalization: Is there an identifiable point at which community development efforts, by changing the perceptions about a neighborhood, begin to attract more private, profit-seeking investment that causes the

neighborhood to “take off?” The idea of thresholds related to change in distressed communities has been defined as “...a dynamic process in which the magnitude of the response changes significantly as the triggering stimulus exceeds some critical value” (Quercia and Galster 1999). In this context, the triggering stimulus is increased homeownership and the responses are measured in terms of housing prices, commercial development and crime rates.

The findings are drawn from five case studies of neighborhoods where

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community-based organizations, primarily CDCs, created a significant amount of homeownership opportunities for low-income residents. The neighborhoods are in Kalamazoo (two neighborhoods), Houston, Seattle, and Washington, D.C. In each case, defining (even naming) the neighborhood was a somewhat subjective process that was determined, in part, by how the available data conformed to the geographic area where for-sale housing was developed by the CDCs. Data were gathered on the timing and location of housing developed for sale and compared to data relating to the residential real estate market, commercial development and crime. In addition, interviews were conducted with individuals who were involved in and witnessed economic change in the neighborhood, including bankers, local government officials

and community representatives. The primary purpose of the interviews was to determine the nature of causation between the housing developed for sale and the data on neighborhood conditions. The evaluation of community-based revitalization efforts may be best achieved using a mix of quantitative and qualitative analysis (Briggs and Mueller 1997). A more detailed description of the methodology, particularly the geographic fit of data to neighborhoods, is provided in the Appendix.

The next section defines development thresholds and examines the importance of perceptions about neighborhoods. A brief description of each of the case studies follows, with a focus on the nature of causality between the housing development and the indicators examined for each case. The following three sections describe changes in the indicators:

- 1) the residential real estate market, measured by changes in single-family home prices or mortgage values, and supplemented where necessary by other mortgage-related data;
- 2) commercial development, measured by retail sales and commercial real estate sales; and
- 3) crime rates, measured by the total number of incidences of crime and the incidences of violent crime. Then the cases are examined regarding whether there is evidence to support the threshold hypothesis. There follows a demonstration of how the effects of non-profit housing development on government revenues can be estimated. The final sections describe the implications of the research's findings on community development practices and identify opportunities for future research.

2 Development Thresholds and Perceptions

The economic viability of a neighborhood is a matter that can not be determined solely through quantitative analysis. It is also the sum of the perceptions of those who live, work and otherwise have a stake there. Whether the neighborhood is in a state of decline, stability or revitalization is, at least in part, a matter of opinion. How a neighborhood is trending can be defined as a function of the perception of residents, investors, financial

institutions and local government concerning the future viability of the neighborhood (Ahlbrandt and Brophy 1975, p. 6). Their perceptions are affected by observable physical and social characteristics, such as the age and condition of the housing stock, the state of the streets and sidewalks, and the appearance and attitudes of people seen on the street, as well as how these characteristics have changed over time. These perceptions may be the most impor-

tant factor affecting investment in the neighborhood.

Investors' perceptions of a neighborhood's viability are based in part on what they see first-hand in a neighborhood and in part on the information they receive from others. Thus their actions will be based to a certain extent on how others behave. If enough attitudes toward a neighborhood change, this will have an effect on the attitudes of others. For certain activities, there is a common

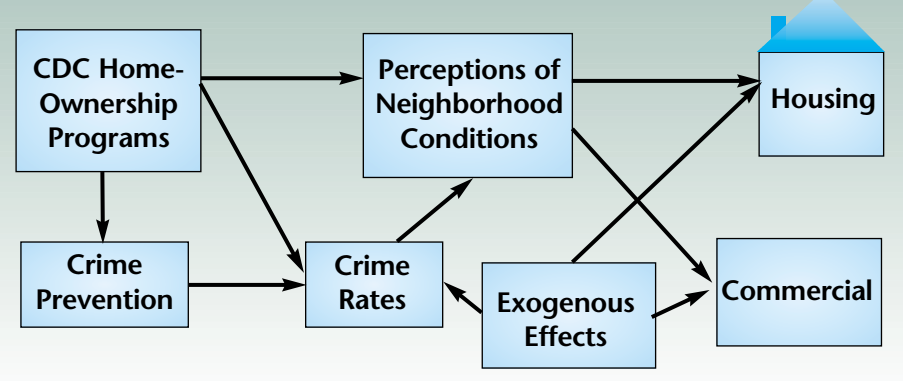
dynamic described by Thomas Schelling (1978):

“...[P]eople’s behavior depends on how many are behaving a particular way, or how much they are behaving that way... *how many* leave the dying neighborhood and how many leave the school.” (p. 94; italics in original)

The phenomenon of enough people behaving in a particular way is known as attaining a “critical mass,” a term adopted from nuclear engineering. Critical mass models, whatever the discipline, involve some activity that is self-sustaining once the measure of that activity passes a certain level. In some cases, critical mass may be reached by absolute numbers (“I’ll attend those community meetings if there are at least ten other people there”) or by a ratio, such as racial “tipping points.” The models can involve a process of “tipping-out,” such as white households leaving a neighborhood as blacks move in, or “tipping-in,” such as an increasing number of people deciding a neighborhood is newly viable. In both cases, the process may involve expectations—not waiting until actual numbers measurably increase, but being confident of an observed trend (Schelling 1978, p.101).

If such a dynamic were to influence the decision of investors regarding the viability of a neighborhood, there would be an observable point at which investment in that neighborhood would begin to increase at a greater rate. That point may be described as the “development threshold” at which attitudes about the neighborhood’s viability, based

Figure 1: Theorized Effect of Increased Homeownership on a Neighborhood



on expectations of future growth, have changed enough that investors see the potential for an attractive return. As investment comes into the neighborhood and improvements occur, there may be something of a self-fulfilling prophecy: critical mass is attained and the reaction becomes self-sustaining.

One question addressed in this research is what constitutes a critical mass of homeownership by residents. Past research has concluded that two of the most important factors affecting neighborhood trends are the rate of homeownership and the strength of neighborhood institutions, such as community organizations and churches (Downs 1981, p. 66; Ahlbrandt and Brophy 1975, p. 25, 32). Homeownership can be seen as having a number of stabilizing effects on a neighborhood, including length of resident tenure, property values, physical conditions and social conditions (Rohe and Stewart 1996). The relationship between increased homeownership and housing values is examined here through the former’s effect on perceptions of neighborhood viability. Crime rates

are likely to affect both perceptions and housing prices and are therefore included in the analysis. Since CDCs also see developing housing and restoring the housing market as the foundation for establishing business enterprise and other economic development activities (Stoutland 1999, p. 202), the health of the business environment is also examined through retail sales and commercial real estate activity. Thus it is hypothesized that increased homeownership created by CDCs affects perceptions of the neighborhood and, along with complementary programs, helps reduce crime rates, which further improves perceptions of neighborhood viability. This in turn has an effect on housing prices and subsequently on the business environment (Figure 1). In addition, changes in a neighborhood’s economy are affected by factors relating to growth and decline of the economy, and crime rates, across the entire city (exogenous factors) and these are therefore also taken into account in the case studies.

3 Overview of the Case Studies

Seattle's Judkins Park

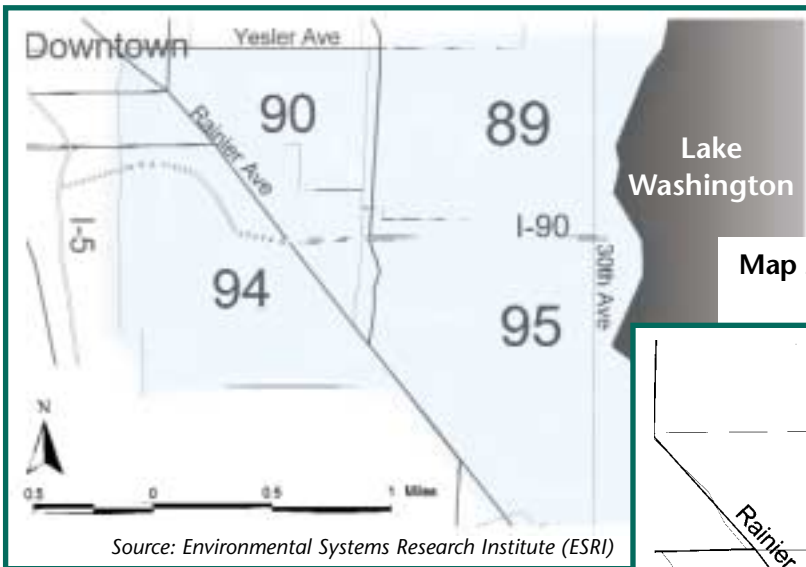
Digging a tunnel for Interstate 90 through the Central Area of Seattle had a particularly devastating effect on Judkins Park, a neighborhood cut in half by the highway. By the time the tunnel was completed in 1991, the sections of Judkins Park near the construction had seen a significant decline in the quality of the housing stock, but the

the after-effects of highway construction, that private developers did not. HomeSight then negotiated successfully with the city for the right-of-first-refusal for the development of much of the vacant land around the I-90 corridor.

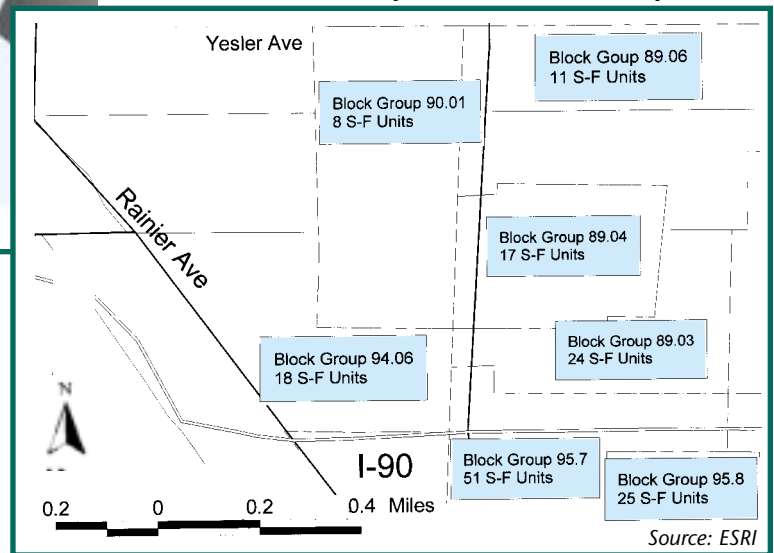
Judkins Park is located near Seattle's central business district. HomeSight's housing development is in a concentrated area comprising

These block groups are spread across four larger census tracts, and it is these four tracts that define the boundaries of the Judkins Park neighborhood for this study. According to the 1990 Census, the seven block groups had a population of about 3,500 and contained 1,400 housing units. The four census tracts had a population of 16,400 and contained a little more than 7,000 housing units. These tracts had a higher poverty rate and lower average household income than the city overall, and these values were more extreme in the block groups (Table 1, next page). However, homeownership rates were close to the city average. Housing values were much lower, with all but one of the seven

Map 1: The Judkins Park Neighborhood and Census Tracts



Map 2: HomeSight's Housing Development in Judkins Park by Census Block Group



vacant land and abandoned housing also offered an opportunity to rebuild. Although attempts were made to find private companies willing to take on development, no successful development projects came about until a community development corporation, HomeSight, was formed by local leaders. These leaders saw an opportunity, in an area riddled with crime and scarred by

seven census block groups, about one square mile in area.

block groups having median housing values under \$87,000 compared to a citywide median value of \$136,500.

Table 1: Selected Characteristics for Judkins Park and Seattle, 1990

	Poverty Rate	Ave Household Income	HO* Rate	Median Housing Value**
7 Block Groups	22.0%	\$24,243	42.6%	\$83,293
4 Census Tracts	17.4%	\$35,108	44.3%	\$114,815
City of Seattle	12.4%	\$38,895	46.5%	\$136,500

*Home Ownership
 **Weighted average of median home prices in block groups and tracts
 Source: Census Bureau

The prices for the census tracts are somewhat skewed by those homes that are lakefront properties on the very eastern edge of Judkins Park.

HomeSight’s housing development moved quickly, thanks to a \$2.5 million Nehemiah grant from the U.S. Department of Housing and Urban Development and LISC loan guarantees. The first single-family houses were completed in 1993, and by 1999 more than 150 units had been completed. In 1997, at the height of production, the CDC completed 71 units (Table 2).

The housing developed by HomeSight appears to have been the primary cause for much of the increase in residential real estate prices in the area. According to those interviewed for the study, private developers had been either unwilling or unable to build homes in the neighborhood. Thus it is unlikely that much new development would have occurred without HomeSight’s intervention. While Judkins Park did have the advantage of proximity to downtown, it was also known for drive-by shootings, open-air drug markets and prostitution, and the neighborhood had been made more physically unattractive by the residual effects of the I-90 construction work.

HomeSight’s development of for-sale housing also played an important role in reducing crime in the

area. Increased homeownership and a close relationship between HomeSight and other community-based organizations and the Seattle Police Department eventually produced significant decreases in both violent and property crimes. Part of HomeSight’s role in crime reduction was providing moral and political support to early homebuyers who were threatened by local drug dealers.

Interviewees stated that housing development by HomeSight was a significant factor in attracting and keeping businesses in the area. The local commercial strip mall had had difficulty in filling vacancies. Efforts by the city and the local development authority also helped improve the business climate. The establishment of a Walgreens drug store and a Starbucks coffee shop were important milestones in commercial development. While many factors may have motivated business owners to invest in Judkins Park, interviewees stated that they believed increased homeownership played a major role.

Table 2: Annual Number of Single-Family Homes Developed by HomeSight

	1993	1994	1995	1996	1997	1998-99*	Total
Houses/Year:	3	10	14	22	71	34	154
Cumulative:	3	13	27	49	120	154	

*One home sold in 1999.
 Source: HomeSight CDC

Houston’s Fifth Ward

Highway improvements also played a large part in the decline of Houston’s Fifth Ward, once a thriving neighborhood and the birthplace of many of Houston’s most accomplished citizens. Barbara Jordan, the first black Congresswoman from the South, Congressman and human rights activist Mickey Leland, civil rights pioneer Dr. Lonnie Smith, jazz great Joe Sample, and George Foreman, heavyweight boxing champion, all hailed from the Fifth Ward. The development of Route 59 cut off the center of Fifth Ward’s commercial district from the rest of the neighborhood, and both subsequently collapsed. Neighborhood decline and increases in crime and poverty followed.

In 1979, *Texas Monthly* described the Fifth Ward as “Texas’ baddest ghetto,” and it has long been known as “the Bloody Fifth” because of its high rates of violent crime. By 1990, the nine census tracts that make up the heart of the Fifth Ward had a poverty rate of over 60 percent (Table 3, next page).

Bounded by Route 59, Interstate 610, the Buffalo Bayou and Lockwood Avenue, the Fifth Ward is a few miles from Houston’s downtown (Map 3). Aside from its high poverty rate, the neighborhood also suffered from very low homeownership rates and housing values. Its main commercial corridor, Lyons Avenue, had few healthy businesses.

Habitat for Humanity came into the Fifth Ward in 1989, bringing

volunteers to work alongside residents building homes. One of those

volunteers was an experienced developer who, with the encouragement and support of local clergy, set up the Fifth Ward Community Redevelopment Corporation (CRC). Fifth Ward CRC began housing production in 1992 and by 2000 had produced 101 units of affordable single-family housing (Table 4). This development was supplemented by Habitat development, involving 54 units built there and in an adjacent census tract during a Jimmy Carter Project in the summer of 1998.

Between Habitat for Humanity, Houston and Fifth Ward CRC, a total of 190 units of affordable housing have been developed in the area since 1990. In addition to the housing development, Fifth Ward CRC and a sister CDC, Pleasant Hill, have built a 182-unit senior citizen home, two commercial malls, and rental housing (which is doubling as a homeownership incubator), along with a sense of community that brings residents out to neighborhood clean-up projects.

Those interviewed about development in the Fifth Ward generally attributed positive change in the neighborhood to the homes built there by Fifth Ward CRC and Habitat. One described the neighborhood as a “self-contained economic unit” because of its physical

Table 3: Selected Characteristics for Fifth Ward and Houston, 1990

	Poverty Rate	Ave Household Income	HO Rate	Median Housing Value*
Fifth Ward	60.2%	\$15,561	28.6%	\$25,716
City of Houston	20.7%	\$37,296	37.9%	\$57,100
Harris County	15.7%	\$41,391	45.5%	\$62,600

*Weighted average of median home prices in nine tracts

Source: Census Bureau

Map 3: Houston's Fifth Ward: For-Sale Housing Development by Fifth Ward Community Redevelopment Corporation and Habitat for Humanity

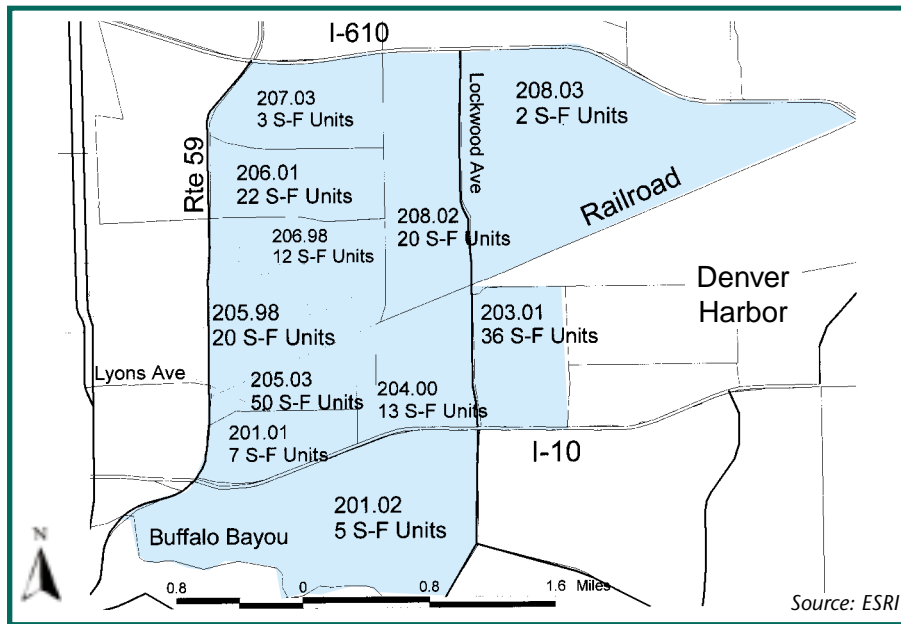


Table 4: Single-Family Housing Developed by Fifth Ward CRC and Habitat for Humanity, Houston

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
Fifth Ward CRC	0	0	3	6	13	11	27	11	10	12	8	101
Habitat for Humanity	10	20	5	0	0	0	0	0	54*	0	0	89
Combined Total	10	20	8	6	13	11	27	11	64	12	8	190
Comulative Total	10	30	38	44	57	68	95	106	170	182	190	

35 developed in tract adjacent to Fifth Ward.

Source: Fifth Ward CRC and Habitat for Humanity, Houston

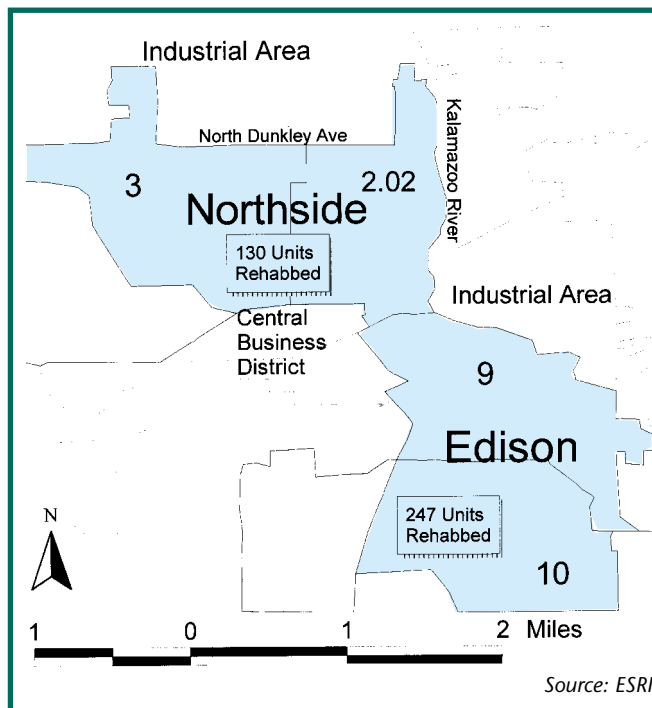
isolation from the rest of the city. No private developers had been interested in building in the area, in part because of the high crime rate. While the neighborhood should have benefitted from being reasonably close to downtown, no other development projects had come to Fifth Ward prior to the work of Fifth Ward CRC. Although the Fifth Ward was seen by most of the interviewees as a neighborhood still in transition, recent newspaper articles have begun to make people more aware of its potential.

Kalamazoo's Northside and Edison Neighborhoods

Two neighborhoods were examined in the southwest Michigan city of Kalamazoo: Northside and Edison (Map 4). These neighborhoods, like the city in which they are located, are much smaller than those examined in the other case studies. Each consists of two census tracts. Northside had a population of just over 6,200 in 1990, and is the predominantly African-American section of Kalamazoo, with 85 percent of its population African-American compared to 18.8 percent citywide. More than one-third of all African-Americans in the city lived in those two census tracts in 1990. Edison, with a population of about 8,500 in 1990, was more diverse than the rest of the city in its racial distribution and had a large portion of the city's Hispanic population.

In 1990, the two neighborhoods, particularly Northside, had lower income levels than the city overall (Table 5). Northside also had a

Map 4: Kalamazoo's Northside and Edison Neighborhoods: Community-Based Home Ownership Development



much higher poverty rate than the city as a whole, and its median housing value was less than half that of the overall city. However, homeownership rates were higher in Northside than in either Edison or the city overall. Edison had a lower housing value than the city as a whole, but was similar in homeownership and poverty rates.

The primary nonprofit provider of low-income housing for sale is Kalamazoo Neighborhood Housing Services (KNHS), although the Kalamazoo Northside Nonprofit Housing Corporation (KNNHC) and Kalamazoo Valley Habitat for Humanity have also been very active. KNHS began operations in 1980 by providing small home improvement loans. During the 1980s, the organization began to focus on rehabilitating housing to sell to low-income residents. Since 1989, KNHS, KNNHC and Habitat have rehabbed over 375 homes for sale to low-income residents of Edison and Northside (Table 6). These sales were augmented by a significant amount of housing rehabilitation by the City of

Kalamazoo, which has completed over 150 units in the two neighborhoods.

Interviewees stated that increased homeownership and housing development have made a difference in the two neighborhoods, particularly Northside. Strong neighborhood organizations have also helped improve public perceptions of both

Table 5: Selected Characteristics for the Northside and Edison Neighborhoods and the City of Kalamazoo, 1990

	Poverty Rate	Ave Household Income	HO Rate	Median Housing Value*
Northside	52.1%	\$15,834	49.9%	\$21,800
Edison	26.9%	\$22,018	41.3%	\$30,761
Kalamazoo City	26.2%	\$31,276	44.2%	\$47,600
Kalamazoo County	13.5%	\$38,109	60.6%	\$62,500

*Weighted for neighborhoods by number of units

Source: Census Bureau

Table 6: Single-Family Housing Developed in the Edison and Northside Neighborhoods, With Cumulative Totals, 1989-99

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Edison	19	25	5	7	38	40	22	23	10	20	38
Cum.	19	44	49	???	94	134	156	179	189	209	247
Northside		7	9	9	9	19	9	15	11	18	24
Cum.		7	16	25	34	53	62	77	88	106	130

Source: W.E. Upjohn Institute for Employment Research

neighborhoods, as have other types of development. In Northside, brownfields rehabilitation has cleaned up large properties that had formerly been industrial sites. An important sign of revitalization has been the market-rate housing developed there by KNNHC. Northside has also experienced recent commercial development activity, and a large part of that is attributed to the housing development.

In Edison, the construction of Bronson Hospital on the eastern edge of the neighborhood has helped to spur some development around it. However, Edison is seen as a neighborhood that still needs much improvement and is hampered by public image problems. The presence of “adult” businesses along Portage Road, Edison’s main commercial corridor, has had a chilling effect on further commercial development there. The neighborhood’s relatively high crime rate also remains a barrier to commercial development.

Washington, D.C.’s Shaw Neighborhood

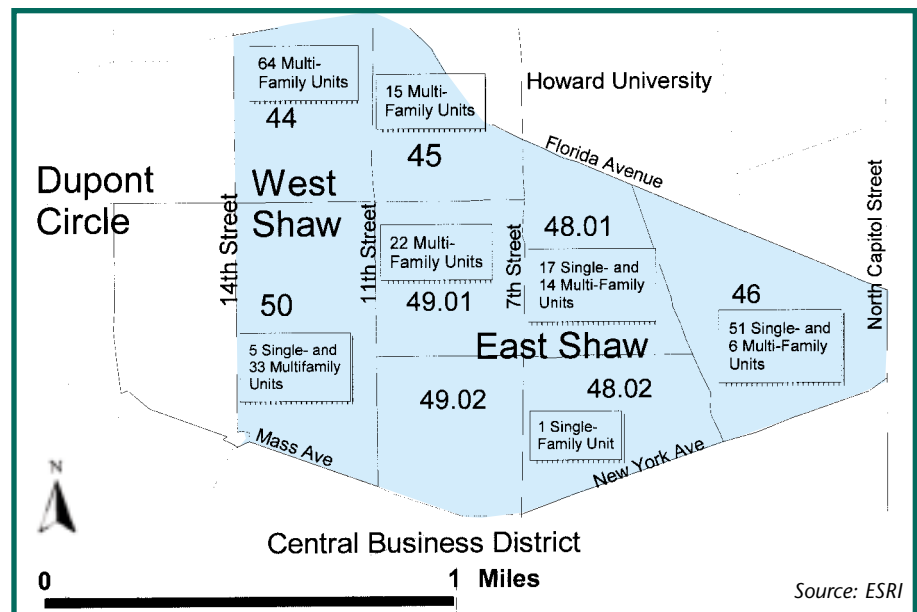
Once the center of African-American culture in Washington, Shaw’s decline accelerated when it became the flashpoint for the riots following the assassination of Martin Luther King in 1968. Much of the destruction left by the riots went

untouched for over a decade; middle-class households moved away; and little development of any kind took place in the neighborhood. However, the completion of the Reeves Municipal Center in 1986, which provided jobs and stimulated local business development, marked the beginning of Shaw’s economic turnaround. Five years later the opening of a Metro subway station on U Street spurred the revitalization of Shaw’s primary commercial corridor as well as stimulating housing in a neighborhood newly linked by the subway to employment opportunities throughout the metro-

politan area. The reopening of the Whitelaw Hotel and the Lincoln Theatre, important landmarks of the African-American cultural heritage in Washington, have also been indicators of neighborhood recovery.

Shaw is located in the heart of Washington, just north of the central business district. Adjoining Shaw to the west is the Dupont Circle area, a significantly higher-income neighborhood with a healthier residential real estate market and much greater commercial activity. Shaw comprises eight census tracts with a population of 21,685 in 10,500 housing units in 1990. Poverty rates are higher than in the city overall, and household income and homeownership rates are lower (Table 7). However, these indicators vary widely across the neighborhood. For example, poverty rates ranged from a high of 27.7 percent to a low of 9.0 percent across tracts, and homeownership rates ranged from 6.8 percent to 42.2 percent. Thus it is risky to make generalizations about Shaw as a single neighborhood. Because of this difficulty, and the changes observed since

Map 5: Washington, D.C.’s Shaw Neighborhood: Community-Based Housing Development



Source: ESRI

Table 7: Selected Characteristics for Shaw Neighborhood and Washington, D.C., 1990

	Poverty Rate	Ave Household Income	HO Rate	Median Housing Value*
Shaw (8 tracts)	21.4%	\$30,015	20.0%	\$168,054
East Shaw (6)	20.0%	\$28,685	22.9%	\$120,209
West Shaw (2)	23.7%	\$31,919	16.2%	\$232,788
Washington, DC	16.9%	\$44,413	34.9%	\$121,700

*Weighted average of median values for tracts

Source: Census Bureau

1990, the most western two tracts—with 38 percent of the 1990 population—will be referred to here as West Shaw, with the remainder identified as East Shaw.

The two local CDCs have focused most of their single-family for-sale housing on the east side of the neighborhood and their multi-family housing more on the west side. Since 1983, the two CDCs—Manna and North Capital Neighborhood Development Corporation (NCDC)—have developed 74 units of single-family housing and 154 units of multi-family condominiums and cooperatives (Table 8). In addition, there has been significant private-sector investment in Shaw in recent years, including the building of a convention center and development of many high-priced condominiums. West Shaw, in particular, is now getting much of the same kinds

of higher-priced housing that the Dupont Circle neighborhood is known for.

Interviews suggest that Shaw’s revitalization is attributable to several factors, with the housing developed by nonprofits overshadowed by other developments, in particular the opening of the Reeves Municipal Center, which provided a direct source of employment and boosted retail trade through the service facilities around it. The opening of the Metro station was also cited as particularly important in making the neighborhood more attractive for commuters. Declining crime rates and high housing costs in Dupont Circle helped attract more middle-income households to Shaw. Some interviewees argued that the multi-family units developed in West Shaw also helped provide the stimulus to

make the area more attractive to middle-income buyers.

It is difficult to estimate the effect of nonprofit housing on retail trade, since the city does not collect business data in a manner that can be analyzed at the neighborhood level. (And the city government is only beginning to automate many of its data processing systems.)

Case Study Comparisons

The CDCs in these case studies are engaged in more than housing development alone. For example, homeowner education programs and various forms of financial assistance are considered crucial to their development efforts. Homeowner education programs are seen as an effective means to create pools of potential buyers and reduce mortgage defaults. Financial assistance programs primarily help bridge the gaps between the limited funds that low-income households can provide for a down payment and the minimum needed to secure a mortgage. While the importance of these programs should not be underestimated, a detailed description of how each CDC helped residents realize the goal of owning their own home is beyond the scope of this report.

Similarly, the CDCs in these case studies were involved in a variety of

Table 8: Single-Family Houses and Multi-Family Units Developed by Manna and NCDC, 1983-2000

	'83-'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99-00
Total Units	27	5	3	9	13	8	11	1	0	42	3	39	16	51
S/F Houses	8	5	3	7	3	4	3	1	0	5	3	30	2	0
M/F Units	19	0	0	2	10	4	8	0	0	37	0	9	14	51
Cumulative	27	32	35	44	57	65	76	77	77	119	122	161	177	228

Total units developed: 74 Single-family, 154 Multi-family

Source: Manna and North Capital Neighborhood Development Corporation

community revitalization efforts. Many are involved either directly or indirectly in stimulating commercial development, and all work to leverage their effectiveness by partnering with other community-based organizations. Indeed, an important characteristic of all the housing programs was that they involved multiple partnerships with public and private organizations. The most important partner in most cases was the local government, with much financial assistance coming from city housing and community development programs. However, local government was also often cited as an impediment to development, primarily because of bureaucratic delays that increased costs and at times jeopardized the success of some projects.

Banks also played an important role in most cases, working closely with the CDCs to make sure loans were bankable and to provide financial and technical support. Every CDC also cited the importance of LISC's financing and technical assistance.

The most significant difference between the CDC development efforts was the type of housing development undertaken. Seattle's HomeSight, working with large vacant lots, built new homes, often in large clusters, creating cohesive small housing developments on the lots south of I-90. In contrast, Houston's Fifth Ward CRC and Habitat built primarily new homes and rehabilitated older homes in developments intermingled with the older housing stock. This led to

some sharp contrasts on a single street, with three brand new houses sitting next to three weather-beaten older houses. Washington's Manna and NCND used the available housing stock, doing significant rehabilitation for the most part and some completely new construction. The homeownership opportunities they created were scattered in some cases and concentrated in others. Kalamazoo's KNHS primarily provided financing for housing rehabilitation, with KNNHC and Habitat responsible for the few new homes built in the neighborhoods. These differences in how houses were developed and grouped are likely to have affected the economic impact on each neighborhood.

Primary Findings

Community-based for-sale housing development can be shown to have had some positive impact on the local economies in four of the five case studies. (Only in Washington, D.C., were changes in the indicators attributed to other factors.)

The impact of CDC housing was most readily quantifiable in Seattle's Judkins Park, where it appears to have stimulated a large amount of private investment in the area and the neighborhood indicators changed significantly.

Houston's Fifth Ward, where housing development and complementary programs by nonprofits were seen as the primary driver of change, experienced increases in both mortgage amounts and the

incomes of homebuyers after 1996, and the number of mortgages steadily increased until 1999. In addition, certain retail sales sectors and crime rates, particularly violent crime, changed dramatically in Fifth Ward.

Kalamazoo's Edison experienced steady increases in mortgage amounts after 1995, while Northside had large increases in 1999 in homebuyers' incomes and the number of mortgages originated.

For Washington, D.C., for-sale housing development was not seen as the most important contributor to overall change in Shaw. Available indicators did not show any meaningful change in one part of the neighborhood, and changes in the other were more likely due to other development projects, the neighbor-

hood's location, and changes in the city as a whole.

In regard to thresholds, in two case studies there was some indication of a threshold being reached that was likely due to the development of for-sale housing by community groups. The clearest example of a threshold is in Judkins Park, where data on single-family housing prices, commercial development and crime rates, as well as the interviews, all show that a significant change took place in the neighborhood during the 1996-97 period. For the Fifth Ward case study, the presence of a development threshold is less clear, but a number of indicators began to change noticeably in 1997.

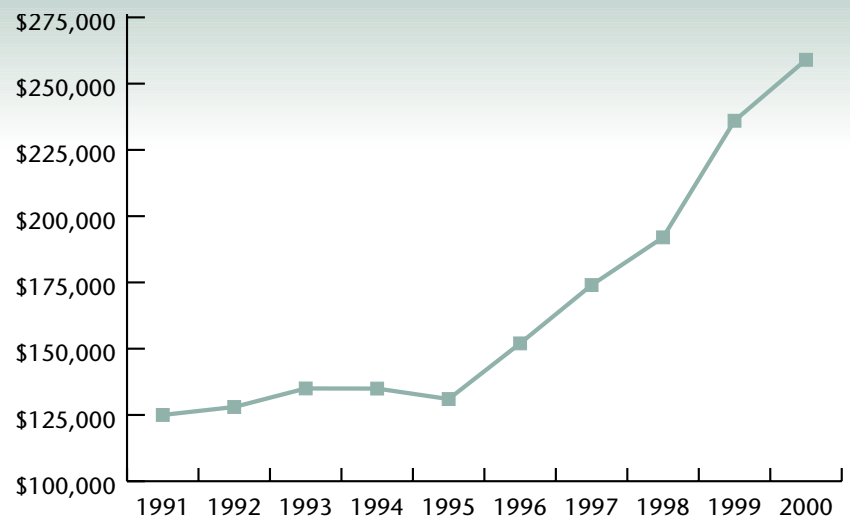
5 Assessing Impacts on Residential Real Estate Markets

Residential real estate prices may be the best indicator of neighborhood revitalization, since they show the increased desire of people to invest and live there. For two of the case studies—Seattle and Washington, D.C.—the impact on the real estate markets was determined by the average or median sale price of single-family homes in the census tracts that defined each neighborhood. These two cases also allowed for an analysis of change in the price per square foot, in order to provide some control for housing quality. For the Kalamazoo and Houston case studies, real estate prices were estimated using mortgage data. (Details of the methodology are in the Appendix.)

Seattle’s Judkins Park

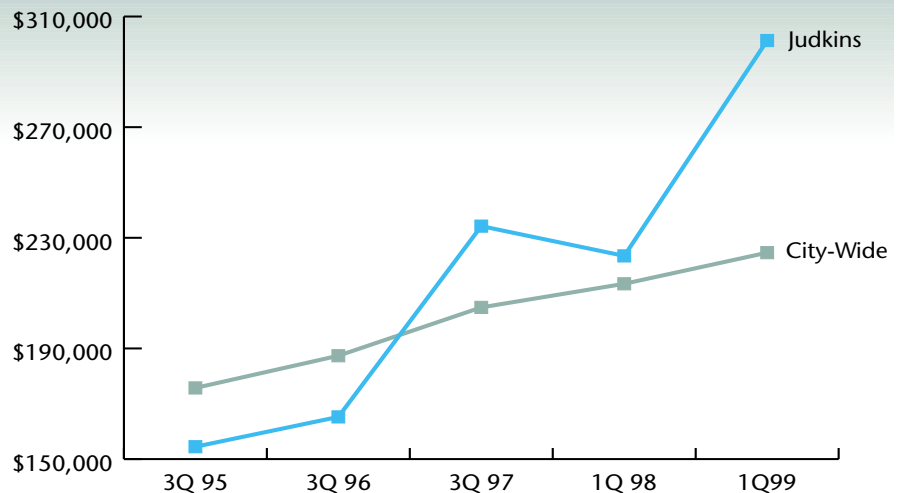
Seattle’s Judkins Park neighborhood went through its most significant changes in the 1996-97 period. Single-family homes increased at a significantly greater rate than they had in the past (Figure 2) and the increases were greater than for the city overall (Figure 3: the quarters used in this chart were determined by the data available from the City of Seattle’s Department of Housing). This was also the period of HomeSight’s greatest activity, with 22 homes completed in 1996 and 71 in 1997. HomeSight’s production was an important stimulant to the local real estate market, with the number of home sales in Judkins Park more than doubling between

Figure 2: Median Single-Family Home Prices, Judkins Park, 1991-1st Quarter 2000 (1998 Dollars)



Source: First American Real Estate Solutions

Figure 3: Average Single-Family Home Prices, Judkins Park and City of Seattle (Selected Periods: 3rd Quarter 1995 - 1st Quarter 1999)



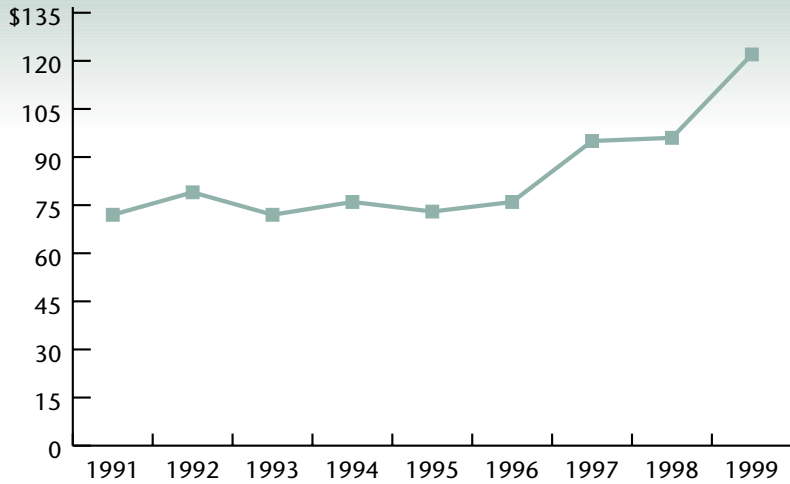
Source: City of Seattle, Department of Housing; First American Real Estate Solutions

1993 and 1997.

The data appear to support the interviewees’ statements that the

new single-family homes built by HomeSight had an effect on housing prices in the neighborhood. The

Figure 4: Median Price per Square Foot of Single-Family Homes in Judkins Park, 1991-99 (1998 Dollars)



Source: First American Real Estate Solutions

median home price in the four tracts nearly doubled between 1995 and 2000 (1st Quarter) from \$131,000 to \$259,000 (Figure 2). When average single-family home prices are compared to the overall city for selected quarters, single-family home prices increased in Judkins Park by 95 percent between 3rd quarter

1995 and 1st quarter 1999, while increasing only 28 percent in the city as a whole (Figure 3).

The increase in housing values in Judkins Park during the 1996-97 period holds even after accounting for the square footage of the house. Between 1991 and 1995, price per square foot stayed between \$60 and

\$70. In 1996, the price began to rise significantly, rising to \$124 per square foot in 1999 (Figure 4).

The downside to the revitalization of housing prices in Judkins Park was a decline in the number of affordable housing units available. In 1991 nearly 40 percent of all single-family housing sales were for less than \$100,000; by 1999 this figure had declined to about 8 percent (Table 9). Even HomeSight was having difficulty keeping the homes it sold at affordable rates. Such increases in housing prices were not unexpected in a neighborhood with Judkins Park's potential and proximity to the central business district, and were also undoubtedly influenced by Seattle's booming economy. Still, when neighborhood revitalization directly or indirectly shrinks the supply of affordable housing, it raises concerns about contributing to gentrification, clearly not the intention of community development organizations.

Rental prices in Seattle's Central Area, of which Judkins Park is a large portion, increased 99 percent

Table 9: Number and Percentage of Single-Family Houses Sold each Year for Under \$100,000 in Judkins Park

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
Total Sales	68	105	93	113	139	158	195	211	205	50
#<\$100K	26	29	26	29	38	39	29	24	17	3
Percentage	38.2%	27.6%	28.0%	25.7%	27.3%	24.7%	14.9%	11.4%	8.3%	6.0%

*First Quarter

Source: First American Real Estate Solutions

Table 10: Average Rent for Central Area and Unweighted Average of All Seattle Neighborhoods

	1990	1995	1996	1997	1998	1999	% Ch. '90-95	% Ch. '90-95	% Ch. '90-95
Central Area	\$420	\$542	\$640	\$671	\$694	\$835	29%	54%	99%
Seattle	\$473	\$608	\$630	\$658	\$726	\$756	28%	24%	60%

Source: City of Seattle, Department of Housing

between 1990 and 1999. As shown in Table 10, during the past five years rental prices have continued to increase at a much higher rate for the Central Area than for the overall city (54 percent versus 24 percent). While rising home prices create wealth for those who have purchased homes, higher prices may be driving others out of the neighborhood.

Houston's Fifth Ward

In Houston, changes in housing prices were extrapolated from Home Mortgage Disclosure Act (HMDA) data. This exercise was necessary because Texas is one of the few states with a “no-disclosure” law that bars public disclosure of the sale price of homes. To test for the accuracy of this methodology, HMDA data on the average mortgage value per year for each tract in Seattle’s Judkins Park was correlated with similar data on home sales. The correlation was found to be close. It thus appears that HMDA average mortgage amounts could be used as an acceptable surrogate for average home sales price. Since HMDA data are relatively inexpensive and simple to analyze, this finding may provide a significant benefit to community groups searching for ways to quantify change in their neighborhoods.

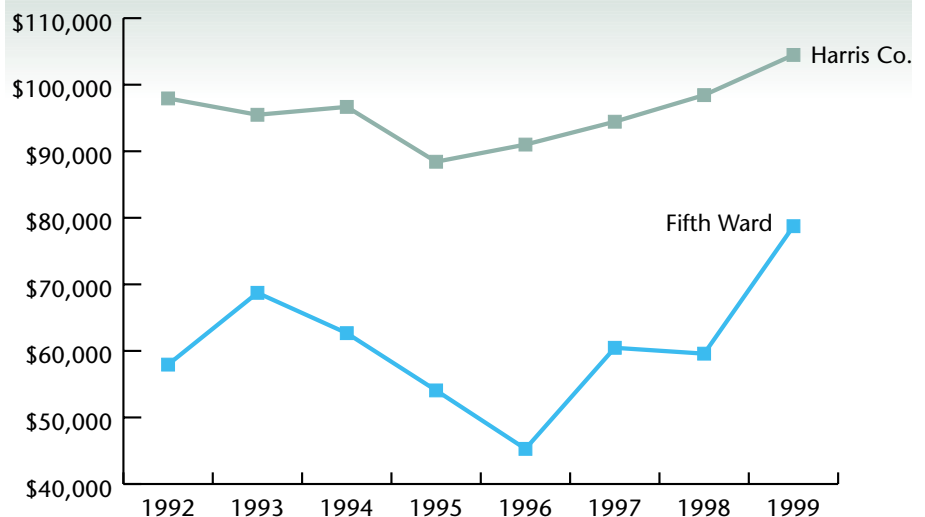
HMDA mortgage data are available from the Federal Financial Institutions Examination Council (FFIEC). This data set of all mortgage applications includes: 1) the purpose of the loan, whether it is for home purchase, improvement or refinancing; 2) whether the unit is for owner-occupancy or not; 3) the action taken on the loan, whether it was denied, originated, withdrawn or other action; 4) the amount of the mortgage applied for; 5) the income level of the applicant; 6) whether the loan uses conventional or subsidized

(e.g., FHA) financing; and 7) the census tract in which the property is located. From this information it is possible to get records of the amount of originated mortgages for owner-occupied purchases for a given neighborhood. In addition, the total number of mortgages originated for owner-occupied homes, the number that were conventional mortgages (as opposed to subsidized), and the average income of the applicants of originated mortgages can be determined. Because the data are available for the years 1992 through 1999, it is possible to examine some trends in the amount of the mortgages originated and in these other indicators of the housing market. However, the data for Houston may not be as reliable as the Seattle data because there were relatively few loans originated in the Fifth Ward. Where the Seattle HMDA/sales price correlation was based on an average of 36 sales per tract per year and about as many mortgages, each tract in the Fifth Ward averaged little more than four mortgages per year.

For the Fifth Ward, HMDA data were analyzed from the eleven census tracts where Fifth Ward CRC and Habitat for Humanity built homes for sale. These tracts include the nine that comprise the Fifth Ward plus two adjacent tracts where both organizations have been active. The data for these eleven tracts were compared to data for Harris County, which includes the City of Houston. While Harris County as a whole is more affluent and has higher housing prices than the City of Houston (Table 3), HMDA data are defined by county and not by city. Houston made up 58 percent of the population of Harris County in 1990 and accounted for 62 percent of housing units.

The HMDA data show that mortgage amounts sharply increased in the Fifth Ward after a steady decline between 1993 and 1996 (Figure 5). This pattern reflects, and was likely influenced by, changes in county-wide mortgage amounts. The decline was greater in the Fifth Ward, 34 percent over three years, than in the overall county, where

Figure 5: Average Originated Mortgage Values for Owner-Occupied Home Purchase in Fifth Ward and Harris County, 1992-99 (1998 Dollars)



Source: Federal Financial Institutions Examination Council

prices dropped 10 percent; but the recovery was also greater, with prices increasing at a much higher rate in the neighborhood than the county (74 percent versus 18 percent).

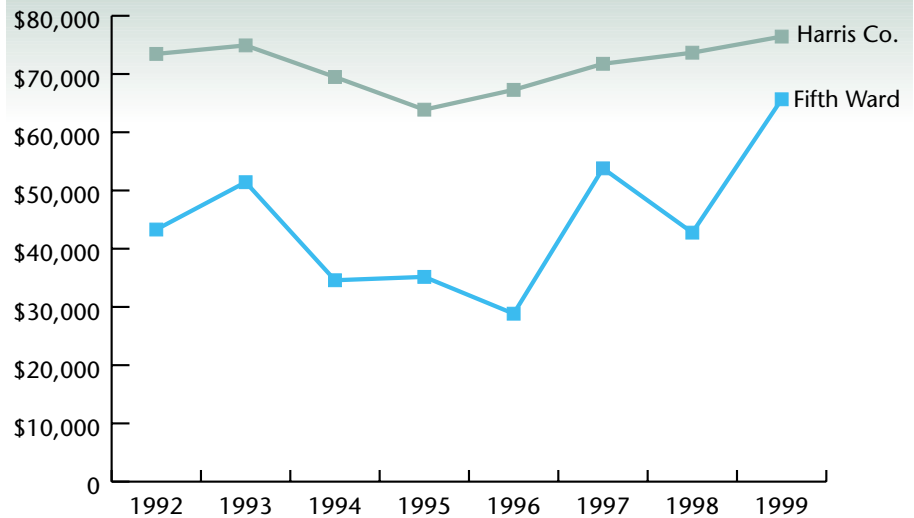
The average income of homebuyers in the Ward also increased significantly during the same period that mortgage amounts increased, approaching the average for the county (Figure 6). This may be an indicator of more middle-income households seeing the Ward as a good place to invest in a home. Another sign of the health of the residential real estate market is the increase in the number of loans originated, which went from just 16 in 1992 to 76 in 1998 before declining to 50 in 1999 (Figure 7). This indicates that the work of Fifth Ward RDC and Habitat for Humanity made lending more viable over time.

Kalamazoo's Edison and Northside Neighborhoods

Real estate price changes for the Kalamazoo neighborhoods were also estimated using HMDA data and were compared to Kalamazoo County, which contains the City of Kalamazoo. Kalamazoo County is wealthier and has higher housing values and homeownership rates than the city (Table 5). Kalamazoo City made up 36 percent of the county's population and accounted for 35 percent of housing units. The two neighborhoods had very different levels of mortgage activity, at least for originated, owner-occupied home purchases, with Edison averaging 88 such mortgages per year compared to 22 for Northside (Table 11).

On a percentage basis, mortgage values increased more in Edison (37 percent) than in the county as a whole (27 percent) between 1992 and 1999, even with an 8 percent

Figure 6: Average Homebuyer Income for Owner-Occupied Home Purchase in Fifth Ward and Harris County, 1992-99



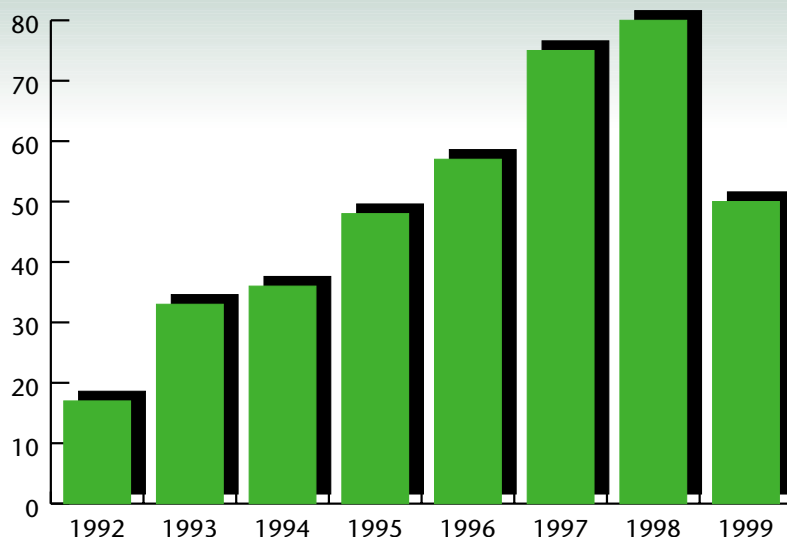
Source: Federal Financial Institutions Examination Council

decline between 1992 and 1994 (Figure 8). Northside mortgage values increased 8 percent between 1992 and 1999, but trends were more erratic because so few loans were originated there. However, it should be kept in mind that even maintaining a similar price increase

to that of a wealthier and more economically stable suburban county would be an accomplishment for an inner-city neighborhood.

While mortgage amounts in Northside did not increase much, both the number of loans originated and the average income of home-

Figure 7: Number of Mortgages for Owner-Occupied Home Purchases Originated for Fifth Ward Properties, 1992-99



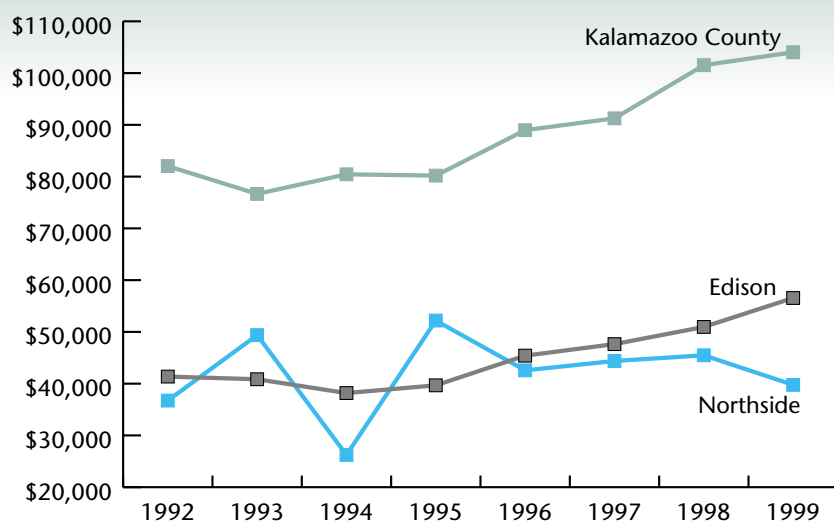
Source: Federal Financial Institutions Examination Council

Table 11: Number of Mortgages for Owner-Occupied Home Purchases for Edison, Northside and Kalamazoo County, 1992-1999

	1992	1993	1994	1995	1996	1997	1998	1999	Average
Kalamazoo County	2383	3017	3540	3372	3783	2575	3893	4386	3369
Northside	11	16	21	16	21	21	21	47	22
Edison	41	54	99	93	107	92	98	118	88

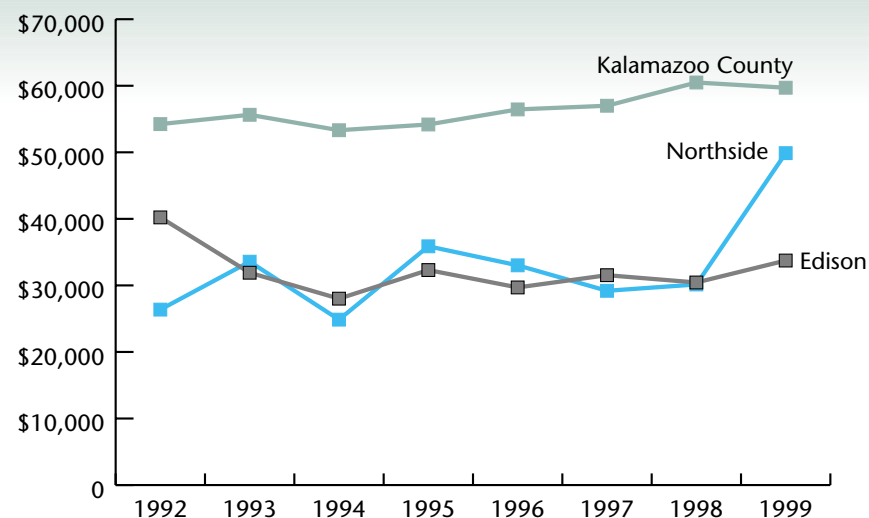
Source: Federal Financial Institutions Examination Council

Figure 8: Average Mortgage Value for Owner-Occupied Home Purchase in Edison, Northside and the Kalamazoo County, 1992-99



Source: Federal Financial Institutions Examination Council

Figure 9: Average Homebuyer Income for Owner-Occupied Home Purchase in Edison, Northside and Kalamazoo County, 1992-99



Source: Federal Financial Institutions Examination Council

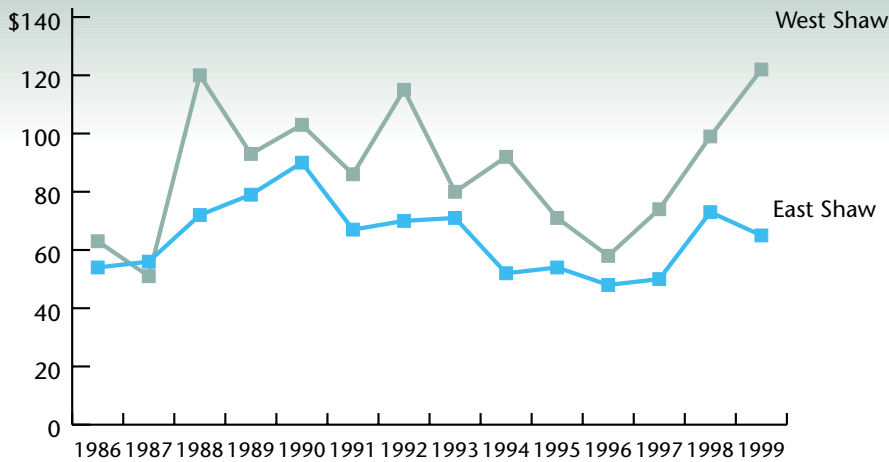
buyers increased significantly in 1999 (Table 11 and Figure 9). In addition, the percentage of mortgages in Northside that were conventional, not requiring subsidies, went from an average of 30 percent in the 1992-1993 period to an average of 75 percent in the 1998-1999 period. While home prices, reflected by mortgage amounts, may not have increased substantially in Northside, these other indicators of the residential real estate market do show a strengthening of that market.

Washington, D.C.'s Shaw

The Shaw neighborhoods were difficult to analyze because of the wide variety of housing stock located there. While homes in Judkins Park, Fifth Ward, Edison and Northside are primarily single-family houses, Shaw has units listed as multi-family, townhouse/rowhouse, condominium, or cooperative, as well as homes listed as single-family but that also were described as having more than one unit. Thus the data used are for single-family housing listed as single unit and townhouse/rowhouse listed as single unit.

Shaw is divided by East and West because of the significant changes in housing prices that occurred in West Shaw due in part to the neighborhood on Shaw's western boundary (Map 5). The Dupont Circle neighborhood has been a relatively high-

Figure 10: Median Price per Square Foot, Single Unit Homes in East and West Shaw, 1986-99 (1998 Dollars)



Source: First American Real Estate Solutions

priced area for quite some time, and both the interviews and the data indicate that it is having an influence on housing prices in West Shaw. West Shaw is considered to be the two most western census tracts of Shaw, numbers 44 and 50, between 11th and 13th Streets, from Florida Avenue to Massachusetts Avenue. West Shaw has about 38 percent of the total Shaw population and 43 percent of the housing units. East Shaw consists of the remaining six tracts, east of 11th Street to North Capitol.

The median price per square foot of single units in East Shaw has not changed much during the past decade and a half, while prices in West Shaw have shown a marked increase since 1996 (Figure 10). Prices per square foot in West Shaw also rose between 1987 and 1988, which may have been in response to the completion of the Reeves Center in 1986—identified in interviews as the most important factor in Shaw’s economic turnaround. The Center is located on the western edge of Shaw at 14th and U Streets. The construction of the Center and its positive impact on the commercial develop-

ment along U Street, which was furthered by the opening of a Metro station, helped bring higher housing prices east.

The Housing Price Index for Washington, D.C. was used to compare changes in housing prices in Shaw with the rest of the city. The HPI is an index of single-family housing prices from the Office of Federal Housing Enterprise Oversight that uses data provided by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) to capture changes in the value of single-family homes in the individual states and the District of Columbia.* The HPI provides quarterly estimates, so values for the city of Washington are

* The HPI is a weighted repeat sales index, meaning that it measures average price changes in repeat sales or refinancings on the same properties. Mortgages on properties financed by government-insured loans, such as FHA or VA mortgages, are excluded from the HPI, as are properties with mortgages whose principal amount exceeds the conforming loan limit.

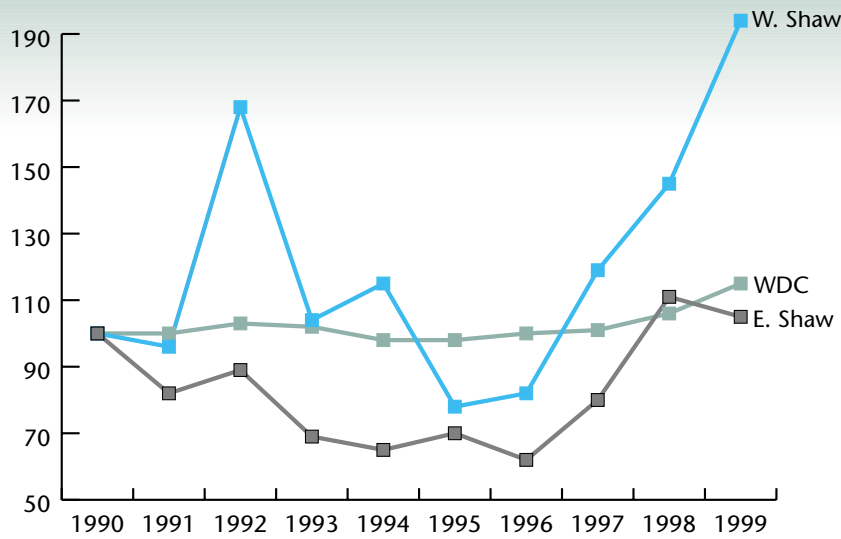
the average of the index for the four quarters. While the HPI is not a perfect indicator of housing values, it may be the only source that provides some comparison without including the entire metropolitan area. Indexes of median single-family and single townhouse/rowhouse unit prices for East and West Shaw from 1986 to 1999 were used in the comparison. (Indexes use a starting period with a value of 100, and that value changes according to percentage changes in the observed data.)

Housing prices in East Shaw began a steady decline in 1990 that lasted until 1996, when they began to recover, exceeding the 1990 peak in 1998 before declining again in 1999 (Figure 11). East Shaw prices increased 68 percent between 1996 and 1999, compared to only 16 percent for the city as a whole. However, this strong recovery appears weaker when square footage is taken into account. Price per square foot has still not reached its 1990 peak. Nevertheless, this does represent something of a recovery for East Shaw and, despite the decrease in price per unit and per square foot in 1999, may mark the start of East Shaw’s revitalization.

Prices in West Shaw have increased more dramatically. Since 1996, unit prices have increased 137 percent, while the price per square foot has increased 121 percent. While the 1999 price per unit is only 16 percent higher than the peak year of 1992, the sales price derived from the sales data for 1992 may be an anomaly. The cost per unit in 1999 was twice as high in West Shaw as East Shaw, and the analysis for West Shaw did not include a large number of high-priced condominiums built there recently.

The HMDA data also show the increased health of West Shaw’s residential real estate market and what

Figure 11: Index of Housing Price Changes, East and West Shaw and Washington, D.C., 1990-99 (1990 = 100; 1998 Dollars)

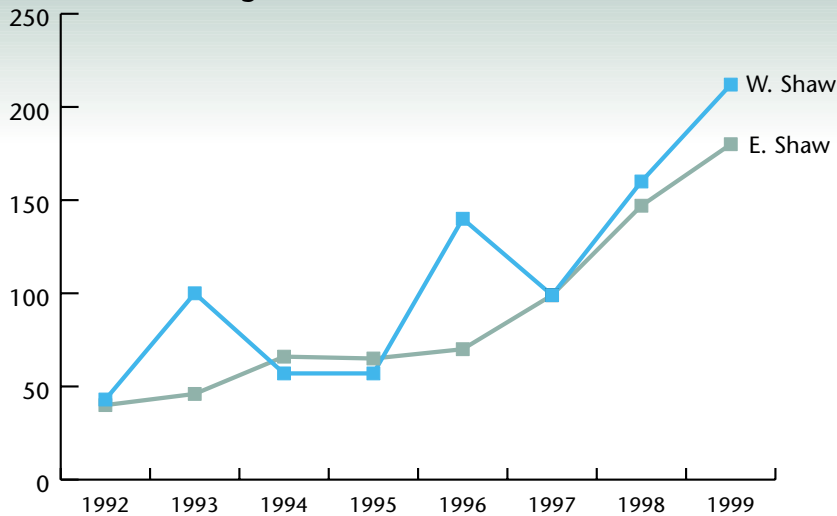


Source: First American Real Estate Solutions

may be the beginning of revitalization in East Shaw. Data on mortgage amounts and homebuyer income generally followed the same pattern as housing price changes. However, the number of loans originated have

steadily increased in East Shaw and show particular growth after 1996 (Figure 12). The strong growth in mortgage lending, up more than 150 percent in three years, is an indicator that the residential real estate

Figure 12: Number of Loans Originated for Owner-Occupied Housing, East and West Shaw, 1992-99



Source: Federal Financial Institutions Examination Council

market there has become more attractive to homebuyers.

Summary

The residential real estate markets appear to have gained strength over the past few years in all of the neighborhoods examined here, though this is not necessarily reflected in real estate prices or mortgage amounts. However, gentrification is a complicating factor in at least one of those places, and perhaps in a second. In Judkins Park, the impact of CDC homeownership programs on housing prices has been strong, causing median prices to nearly double. The housing built by HomeSight seems to have stimulated significant private investment in housing in a short period, but has also reduced the availability of affordable housing for sale and rent. The cause of price increases in West Shaw has more to do with the influence of high-priced homes in the adjacent Dupont Circle neighborhood. It is not possible to estimate how much of a role the 50 units of housing Manna has developed there since 1997 played in stimulating the price increases or whether these increases threaten West Shaw with gentrification.

Mortgage values increased in Fifth Ward and Edison at higher rates than their counties, and Northside and East Shaw have seen significant increases in the number of mortgages originated, indicating a healthier market and perhaps marking the beginning of revitalization. The average income of homebuyers has also increased in Fifth Ward and Northside, demonstrating those neighborhoods' increasing ability to attract middle-income homebuyers, an important aspect of neighborhood revitalization.

6 Assessing Impacts on Commercial Activity

The level of commercial activity in a neighborhood is another measure of private investment. Increased retail sales and commercial real estate activity indicate a change in the perception of neighborhood viability by businesspeople. While real estate is an important type of investment in a neighborhood, it is impossible to reach a critical mass of development without an influx of private commercial investment. However, annual data on commercial activity at the neighborhood level are more difficult to obtain and were available for only three of the case studies.

Seattle's Judkins Park

Retail sales in Judkins Park showed a rapid increase over the past four years, mirroring the increase seen for single-family housing prices (Figure 13). Retail sales in the four census tracts increased by more than 50 percent between 1996 and 1997 compared to 10 percent for the City of Seattle. The increase was also significant for the two tracts (89 and 90) that include South Jackson Street, the primary commercial corridor for the area developed by HomeSight. Between 1996 and 1997 the increase in retail sales for these two tracts was 63 percent compared to an increase of only 10 percent for the City of Seattle. By 1999, retail sales for Judkins Park's four tracts had more than doubled from

their 1996 level, as had sales in just the two tracts that included South Jackson Street. Thus the acceleration in retail sales above the overall city rate has continued over a four-year period.

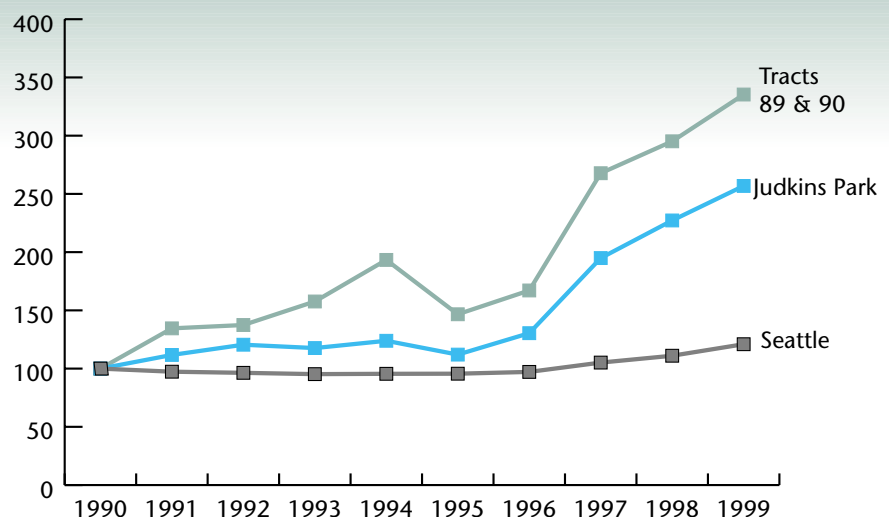
Judkins Park also saw an increase in commercial real estate activity after HomeSight's housing development there. Between 1986 and 1995, commercial real estate sales in the four census tracts averaged just under \$4 million per year (ranging from \$985,000 in 1992 to \$9.3 million in 1989). Since 1996, however, Judkins Park averaged over \$8 million a year in commercial real estate sales and had over \$3 million in sales during the first quarter of 2000.

While figures for commercial sales were not available for the entire City of Seattle, this large an increase represents a significant change for the neighborhood.

Houston's Fifth Ward

Retail sales data at the zip code level are used to measure change in Fifth Ward. Two zip codes cover the Ward: 77020 in the south and 77026 in the north. One of the problems with zip code level data is that it does not fit the boundaries of the neighborhood as well as other geographic definitions. The southern zip code, 77020, also includes the contiguous neighborhood of Denver

Figure 13: Index of Retail Sales for Judkins Park, Two Tracts (89 & 90) and the City of Seattle (1990 = 100; 1998 Dollars)



Source: Research Division, Washington State Department of Revenue

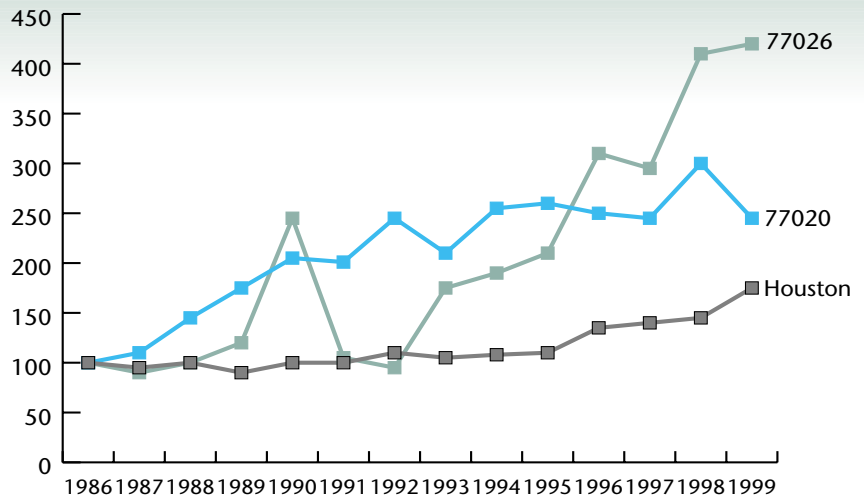
Harbor to its east, and 77026 includes Route 59, which has commercial establishments along its access roads that would not be affected by development in the neighborhood, and some areas north and west of Fifth Ward. However, this is the only form in which these data were available.

Retail sales within the two zip codes were first examined in aggregate and compared to data for the City of Houston. Between 1986 and 1998, retail sales grew at similar rates in the Ward as in the city overall: 39.4 percent versus 37.6 percent (in 1998 dollars). However, since 1995, total retail sales for the two zip codes declined by 7 percent while increasing 19 percent in the city overall. Given the inclusion of another neighborhood and the businesses along and across the highway, it was difficult to determine the effect that housing development has had on overall retail sales.

In order to isolate the effect of housing on retail sales in the Ward, sales data were broken down to the next level of detail. Data for the two zip codes in the retail areas of Building Materials and Garden Supplies (Standard Industrial Classification [SIC]-52) and Furniture and Home Furnishings (SIC-57) were examined, since they appeared to be the two types of retail sales most likely to be affected by for-sale housing development by non-profits. As common sense tells us—and studies confirm—new homebuyers spend more on household furnishings, home fix-up, landscaping and remodeling than other homeowners (Apgar et al 1987, Emrath 1994, Price Waterhouse 1992).

Retail sales for Building Materials and Furniture were also broken

Figure 14: Index of Retail Sales of Building Materials in Fifth Ward Zip Codes and City of Houston, 1986-99 (1986 = 100; 1998 Dollars)



Source: State of Texas, Comptroller of Public Accounts

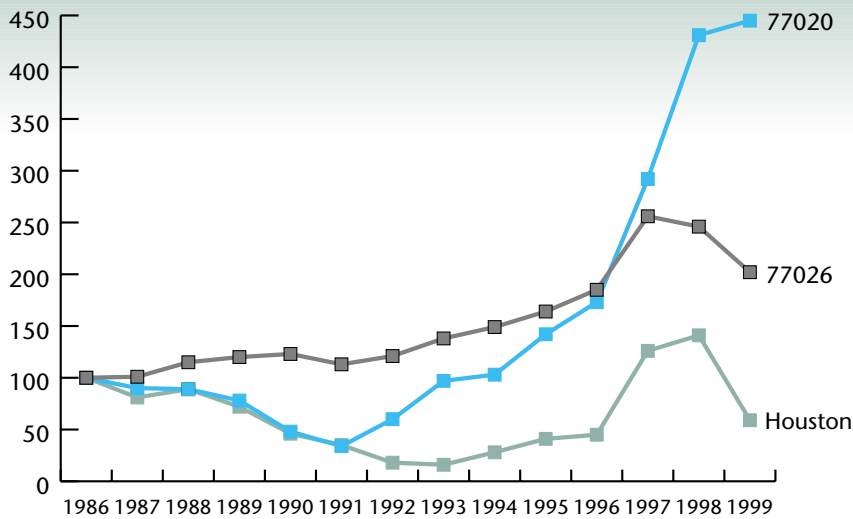
down to examine differences between zip codes. The southern zip code, 77020, has much more retail activity in Building Materials and Furniture than does 77026. Zip code 77020 averaged over \$20 million per year in sales in the past five years, compared to less than \$7.5 million for 77026. The change in retail sales for each of the zip codes is also very different for each of the two retail categories.

In regard to Building Materials, the growth of sales in 77026 was much greater than in 77020 (Figure 14). The growth of Building Materials sales for 77026 began in 1993, which may indicate that housing production by Fifth Ward CRC and Habitat for Humanity was a stimulant, and was much stronger than growth in the overall city. Another strong increase occurred in 1996, the year of Fifth Ward's highest level of production (Table 4). The southern zip code, 77020, did not grow in sales after 1994 other than the bump in 1998 caused by Habitat's Jimmy Carter Project that

summer in Fifth Ward and western Denver Harbor. Though its growth from 1986 to 1999 was higher than the city, that growth occurred prior to 1994. While growth was less in 77020, total retail sales for Building Materials were still higher there in 1999 than in 77026 (\$14 million versus \$8 million, both figures in 1998 dollars).

The story is somewhat different for Furniture. Retail sales growth in the southern zip code, 77020, was stronger than in 77026 starting in 1992, and began to grow even more quickly after 1996 (Figure 15). Furniture sales in 77020 went from just over \$500,000 in 1991 to over \$8 million in 1999. Even accounting for inflation, this is an increase of about 13-fold over a seven-year period. Furniture sales in 77026 were much weaker throughout the entire period examined. While they recovered in 1997 and 1998, these increases closely match those for the city as a whole, and the decline in 1999 was much greater than the city's decline that year. Total

Figure 15: Index of Retail Sales of Furniture in Fifth Ward Zip Codes and City of Houston, 1986-99 (1986 = 100; 1998 Dollars)



Source: State of Texas, Comptroller of Public Accounts

Furniture sales for 77026 were also much lower in 1999 (\$750,000 using 1998 dollars) than for 77020.

Kalamazoo and Washington, D.C.

Retail sales data were not available for either of the two neighborhoods in Kalamazoo nor for Shaw in Washington, D.C., so any analysis of commercial activity there would have to rest on commercial real estate sales alone. However, commercial sales data for Kalamazoo were not available, and those for Shaw were of

questionable value because of numerous duplications in the records that made it difficult to determine the number of sales that had taken place. From the records available, it was not possible to know whether a parcel had been split up and sold separately or whether the sales price represented one price for all of the various pieces. Furthermore, when the commercial real estate price sales for each year were estimated (to the extent the data would allow), no discernable trends were noted, with total commercial real estate sale values going up and down in signifi-

cant amounts each year. Thus the data on commercial real estate activity in Shaw did not lend themselves to any meaningful analysis. Zip code level analysis, which could have provided some indication of trends in commercial activity, was not useful for Shaw because the zip code boundaries do not conform to Shaw's boundaries.

Summary

There were marked changes in commercial activity in Judkins Park, with both retail sales and commercial real estate sales increasing dramatically. The retail sales increase even holds for just the two tracts where Judkins Park's primary commercial corridor lies. These changes in trends also occurred at about the same time as changes in real estate prices, reinforcing the development threshold observed in the data. Changes in retail sales for Fifth Ward were also substantial, and it is likely that the increases in sales of Building Materials in one zip code and Furniture in the other has been influenced by for-sale housing development by community groups. It is unfortunate that similar analyses could not be done for Kalamazoo and Washington, D.C., but the lack of information points to the need to improve collection of small-area data.

7 Assessing Impacts on Crime Rates

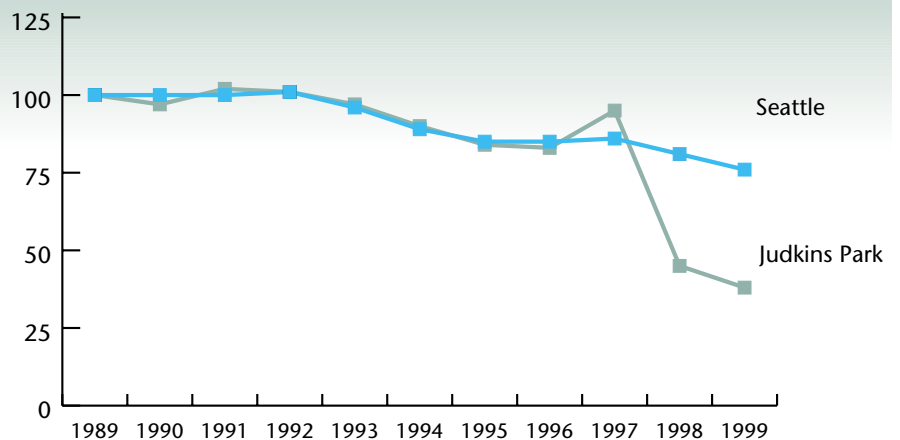
The prevalence of crime in a neighborhood can have a significant effect on perceptions and investment. Violent crime, in particular, makes a neighborhood less attractive for home purchase and business start-up.

High crime rates can keep a neighborhood from attracting the investment needed to reach a development threshold and to revitalize. Increased homeownership can help reduce crime rates by providing a greater incentive for residents to become involved in crime prevention programs and to work cooperatively with police. This relationship between homeownership, crime, and perceptions makes an examination of changes in crime rates a necessary part of this study.

Seattle's Judkins Park

Crime rates in Seattle seemed to have a similar threshold dynamic as seen for single-family home prices and commercial activity, but change came in 1998, later than these other changes. This is at odds with the model of neighborhood change described above, in which reduced crime rates impact housing prices and commercial real estate (Figure 1). In Judkins Park, there were actually two periods in which overall crime rates decreased significantly (Figure 16). The first decline in overall 'Part 1' crime rates — including both violent crimes (murder, rape, robbery and aggravated assault)

Figure 16: Index of Crime Rates for Judkins Park and the City of Seattle, 1989-99 (1989 = 100)



Source: City of Seattle Police Department

and property crimes (burglary, theft, auto theft and arson) — occurred between 1992 and 1996 and closely matched the decrease seen in crime rates citywide. In both cases, crime rates declined about 16 percent. The second significant drop in total crime rates occurred between 1997 and 1998. It was more dramatic in Judkins Park (down 53 percent) than citywide (down 6 percent), and the decline continued into 1999.

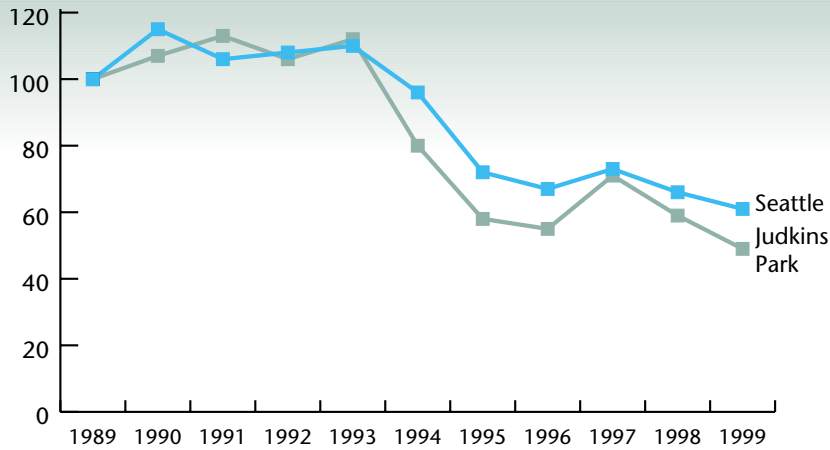
Violent crime declined substantially citywide (39 percent) between 1993 and 1996 (Figure 17). For Judkins Park, the decrease during this period was even greater (51 percent), and it occurred at the same time that HomeSight began to build homes in the neighborhood. However, the neighborhood saw a substantial increase in 1997, larger

than that for the city. Violent crime in Judkins Park and the city then declined again, at a greater rate in the neighborhood (31 percent) than citywide (16 percent).

Houston's Fifth Ward

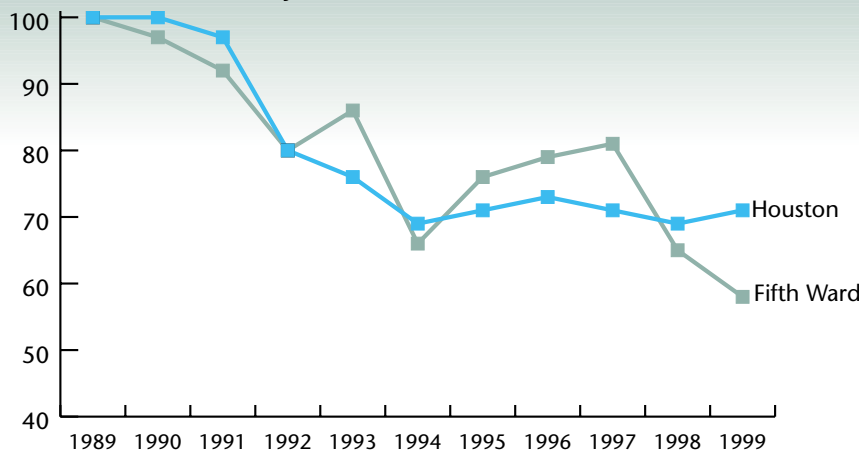
Crime in the Fifth Ward was measured by a police beat within the Ward and compared to overall city crime rates. The Ward is actually covered by two Police Beats, 7C10 and 7C20, south and north of the railroad tracks that split the neighborhood (Map 3). Neither precisely overlaps the Ward as defined in this study. However, while Beat 7C10 has some streets that are beyond its boundaries, much of Beat 7C20 lies outside the area. Since the large majority of 7C10 is within Fifth

Figure 17: Index of Violent Crime Rates, Judkins Park and City of Seattle, 1989-99 (1989 = 100)



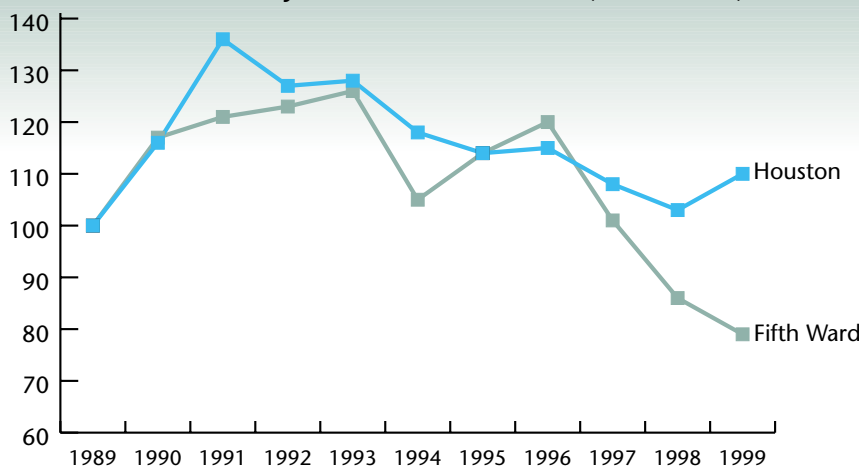
Source: City of Seattle Police Department

Figure 18: Index of Total Crime for Police Beat 7C10 (Fifth Ward) and the City of Houston, 1989-99 (1989 = 100)



Source: Houston Police Department

Figure 19: Index of Violent Crime for Police Beat 7C10 (Fifth Ward) and the City of Houston, 1989-99 (1989 = 100)



Source: Houston Police Department

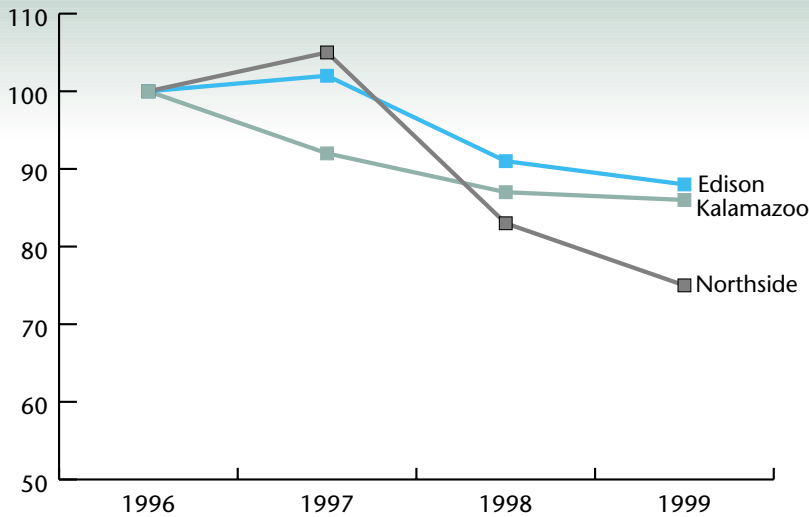
Ward proper, this beat is used to indicate trends in the neighborhood.

Changes in overall crime rates, property and violent, in 7C10 closely followed rates in the city until 1997, when rates declined more quickly in this beat (Figure 18). Actually, total crimes in the City of Houston increased slightly between 1997 and 1999, while they decreased by 27 percent in 7C10. Some of the decrease in overall crime in 7C10 is due to the significant decrease in violent crime there (Figure 19). Violent crime accounts for a much higher percentage of total crime for 7C10 than for the overall city. Over the past five years, violent crime citywide accounted for 16 percent of all crimes, while it accounted for over 30 percent of all crimes in 7C10. Thus the recent decline in total crime in 7C10 was significantly affected by the decline in violent crime. Until 1996, changes in violent crime rates for 7C10 roughly mirrored changes for the city. However, between 1996 and 1999, violent crimes in 7C10 decreased 34 percent compared to only 4 percent citywide.

Kalamazoo's Edison and Northside Neighborhoods

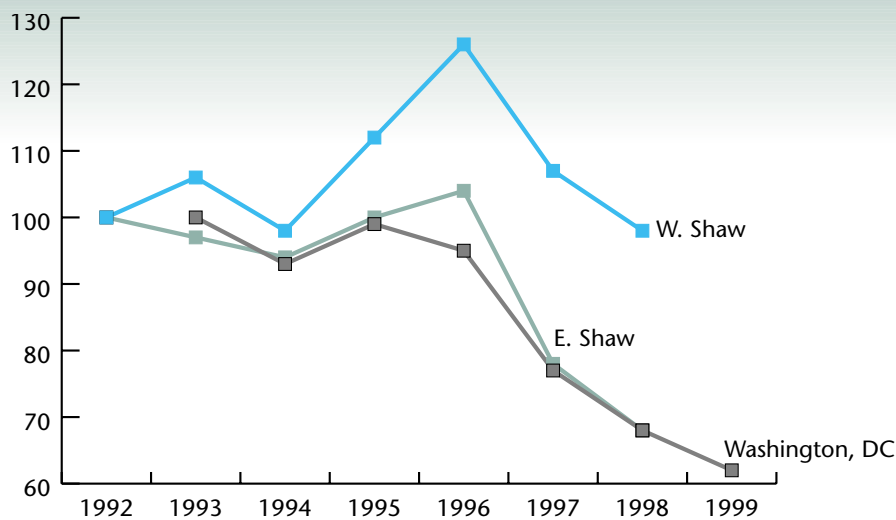
Crime data for Kalamazoo neighborhoods were available only for 1996 to 1999, so it is not possible to assess a longer-term trend (Figure 20). What can be seen is that crime decreased more in Northside (25 percent) during this four-year period than it did citywide (14 percent), but there was less of a decline in Edison (12 percent). After accounting for the increase in the neighborhoods in 1997, the decline in crime rates was greater for the two neighborhoods in

Figure 20: Index of Crime for Edison, Northside and Kalamazoo, 1996-99 (1989 = 100)



Source: City of Kalamazoo Police Department

Figure 21: Index of Total Crime for East and West Shaw (1992 = 100) and Washington, DC (1993 = 100), 1992-99



Source: Crime Analysis Unit, Metropolitan Police Department

the past three years, particularly in Northside, than for the city as a whole. While crime citywide declined 6 percent in the three-year period, it dropped 15 percent in Edison and nearly 30 percent in Northside.

Washington, D.C.'s Shaw

Time periods for the available crime data were not precisely the same for Shaw (1992-1998) as they were for the city of Washington (1993-1999), but they were similar enough to allow comparison. Total crime in East Shaw dropped 35 percent between 1996 and 1998, mirroring the decline citywide (Figure 21). However, while total crime declined in West Shaw between 1996 and 1998, this came after a large increase from 1994 to 1996 and only brought the number of incidents back to the 1992 level. Violent crime also declined sharply after 1996 in both parts of Shaw, but again only East Shaw kept up with the citywide rate of decline (Figure 22).

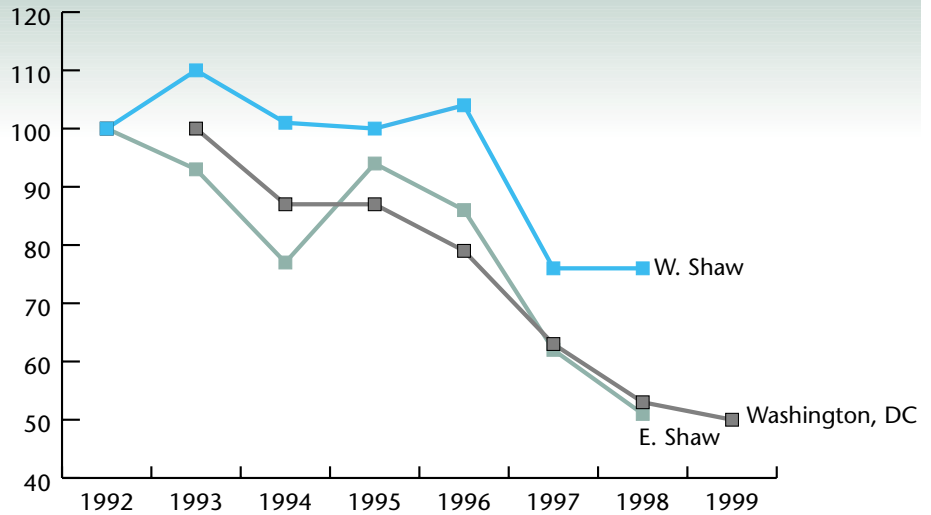
It is difficult to reconcile the stubbornly high rates of crime in West Shaw with its increasing housing prices, particularly while citywide crime rates were declining at such a significant pace. A more thorough examination of crime in that area is necessary to understanding why a high crime rate persists in an area that appears to be revitalizing.

Summary

Crime rates in the neighborhoods examined have been affected by the declining crime rates in their cities. However, in three of the five cases, changes in the neighborhoods were greater than those in the city as a whole. In Judkins Park, total crime

rates dropped significantly in 1998, close on the heels of HomeSight's highest production period. In this case, it can be inferred that increased vigilance and civic activism on the part of new homeowners had an impact. In the violence-plagued Fifth Ward, violent crime decline precipitously at a time when violent crime rates city-wide were decreasing much more slowly, driving the decline in total crime for the neighborhood. While the data did not permit analysis of long-term trends, the decline of crime rates in Northside and East Shaw may show some indication that perceptions of those neighborhoods are improving.

Figure 22: Index of Violent Crime for East and West Shaw (1992=100) and Washington, DC (1993=100), 1992-99



Source: Crime Analysis Unit, Metropolitan Police Department

8 Assessing Evidence of Development Thresholds

Public perceptions of a neighborhood have a substantial influence on the willingness of people to invest there, whether as a homebuyer or a businessperson. As perceptions are changed by revitalization efforts, a critical mass of opinion may be reached that causes people to begin “tipping in” rather than vice versa. A development threshold is reached when the “tipping in” becomes self-sustaining.

The Seattle case study reveals a neighborhood reaching a development threshold, as confirmed both quantitatively, through the data on housing prices and commercial activity, and qualitatively, via the interviews. Single-family housing prices, retail sales and commercial real estate

sales all exhibited significant changes in trends beginning in either 1996 or 1997, the same time when, in the opinion of numerous interviewees, Judkins Park had turned around. Houston's Fifth Ward also exhibited what seems to be a threshold in 1997, with increases in mortgage values, homebuyer income and certain retail sales, and declines in crime rates. Kalamazoo's Northside may have just reached a development threshold in 1999, with sharp increases in homebuyer income and the number of mortgages originated and a decline in crime rates, but it is too early to be sure. There was no evidence of thresholds in Kalamazoo's Edison nor in Washington, D.C.'s Shaw that can be attributed to housing development.

Why did some neighborhoods reach a threshold and others not?

To begin with, each of the neighborhoods examined started from different places, as the data from the 1990 Census illustrate. Judkins Park, Edison and Shaw did not have the high poverty rates of the Fifth Ward or Northside, though they were still higher than citywide rates and higher than the national rate (13 percent). Also, housing values were much less than the city median for Fifth Ward, Edison and Northside and the seven-block group area of Judkins Park. In Shaw, housing values were higher than the city median, but the neighborhood had the lowest homeownership rate (20 percent) of any of the case studies. In the other neighbor-

hoods, homeownership rates were not much lower (i.e., more than 10 percentage points) than the city rate for all neighborhoods. The neighborhoods also varied significantly in size, measured by both population and number of housing units (Table 12).

Whether development has a high profile—that is, whether public perceptions of change are heightened by seeing a large number of new for-sale houses relative to the size of the neighborhood, or being aware of development taking place within a concentrated period of time—may be part of the threshold equation. For example, in Judkins Park, 154 housing units were developed for sale in a span of six years, with more than 100 sales recorded in just two years. Within the smaller seven census block groups, this represents more than 10 percent of the housing stock that existed in 1990, though it is just 2.2 percent of stock in the larger four census tracts. This high concentration of housing development, both spatially and temporally, may have been an important factor in Judkins Park reaching its development threshold. In contrast, development in Shaw took place over a much longer period, with 74 single-family and 154 multi-family units developed over an 18-year period and spread out over an area with 50 percent more housing units.

For Fifth Ward, 190 single-family units were developed in a little over ten years, with 64 of these units completed in 1998. Additional factors included the completion of a 165-unit senior citizens home in 1998 and the fact that Fifth Ward CRC supplements its for-sale housing programs with commercial development projects and rental housing development. This further complicates the equation, as does the fact that the effects of the surge of development in 1998 may just be begin-

ning and thus are not yet fully reflected in the data on mortgages and retail sales.

Another spatial factor, aside from the concentration of housing development, that may have helped Judkins Park reach a development threshold is its proximity to the city's central business district (CBD), which is just a mile away. Urban-suburban traffic congestion may be acting as a push, and reduced crime rates as a pull, to attract more people to live in central cities. These factors may have played a role in decisions to buy homes in Judkins Park, since commuter traffic is a major problem in the greater Seattle metropolitan area and overall crime rates in the city have declined 42 percent since 1991.

The same dynamic is present in Washington, D.C., working to the advantage of West Shaw, which borders both the CBD and a gentrified area overflowing its supply of attractive housing. However, this proximity to the CBD did not notably help East Shaw, although prices there have been increasing modestly in the last two years and the number of mortgages originated is also increasing. (This increase is somewhat greater in the three westernmost census tracts of East Shaw, which may be an indication that higher home prices are moving east through Shaw.) The revitalization of the CBD has also been moving east, from

15th Street to 7th Street, which may be one reason why the effect has been greater on West Shaw.

Houston's Fifth Ward is also very close to the CBD, but is more isolated both by the highways and by its relatively high rates of poverty and violent crime. The relatively small size of Kalamazoo makes the neighborhoods of Edison and Northside potentially more attractive to those who want to be close to the CBD, but commuter traffic is not a significant problem in Kalamazoo and thus not much of an impetus for inner-city neighborhood revitalization.

Generally speaking, as inner-city neighborhoods improve they are likely to attract more people who want to live closer to where they work. Attracting private investment to a neighborhood, including the purchase of market-rate homes and retail establishment start-ups, may be the primary determinant of whether a development threshold occurs. The ability to attract investment rests to a certain extent on the ability of the neighborhood to attract new residents and, particularly for distressed neighborhoods, middle-income residents. The outmigration of middle-income households from cities and the subsequent concentration of poverty there is, of course, a primary cause of inner-city problems. The attraction of middle-income households provides both fiscal benefits to

Table 12: Populations and Housing Units for Neighborhoods, 1990

	Population	Housing Units
Judkins Park (4 tracts)	16,398	7,024
7 Block Groups	3,535	1,401
Fifth Ward (9 tracts)	24,170	11,203
Fifth Ward (11 tracts)	31,973	13,941
Shaw	21,685	10,492
East Shaw	13,469	6,033
West Shaw	8,216	4,459
Edison	8,547	3,374
Northside	6,254	2,401

Source: Census Bureau

the city and social benefits at the neighborhood level (Quercia and Galster 1997). In addition to increasing housing prices, attracting middle-income households should also help increase commercial activity and may keep down crime rates.

It is also likely that the type of housing developed is a factor in reaching a development threshold. For example, the impact of multi-family housing may not be as great *per unit* as single-family housing. In Judkins Park, not only was nearly all the housing single-family, but it was almost entirely new construction and was accompanied by improvements in streets, curbs and sidewalks, radically changing the appearance of the

neighborhood. In Fifth Ward, the construction was also new and single-family, and numerous infrastructure improvements were made, but much of the neighborhood remains without sidewalks and some streets are still unpaved. The housing developed in Shaw included some new construction, but also much rehabilitation of existing stock. This was also the pattern in Kalamazoo.

Five case studies cannot produce a definitive answer on what causes a neighborhood to reach a development threshold. While the Judkins Park case points to the importance of concentrated housing, other factors also have an effect, including the presence of programs to address

neighborhood needs other than housing, proximity to the CBD, and the characteristics of the neighborhood prior to development. Determining the characteristics, programs and development that will best improve the odds of attaining a development threshold will require more in-depth analyses. Comparisons to neighborhood revitalization efforts that do not use increased homeownership as the central strategy would be useful, but such comparisons were beyond the scope of this research. The aspects of community development that should be addressed in future research are discussed in the concluding section of this report.

Estimating the Fiscal Impacts

The production or rehabilitation of housing by community groups can increase fiscal-revenues for state and local governments in several ways. First, housing development requires large quantities of building materials from which revenue is received through sales taxes. Transfer taxes are applied to the finished home when sold and sales taxes to the acquisition of furnishings for the home. New and improved homes also tend to increase home values, which has a positive effect on property taxes, the primary source of income for many local governments. If neighborhood revitalization has some success, perhaps reaching a development threshold, then revenues from property taxes may increase in a broader area.

Estimating the increased revenue from housing development and

neighborhood revitalization is an imprecise art, since it is difficult to sort out what portion of housing price increases or increases in retail sales are attributable to CDC activity versus other factors impacting either the neighborhood or the city as a whole. However, the importance of demonstrating how neighborhood revitalization affects government revenue makes it worthwhile to formulate a means of estimation. Judkins Park's HomeSight has developed a method for estimating the return on investment that the city realized from its assistance to HomeSight's development work, an exercise that helps make the case for government involvement and helps insulate the government from criticism after the fact. Demonstrating the value of community development efforts helps both government and community

groups to build and sustain support for ongoing programs that put money back into distressed communities.

Estimates of the fiscal benefits of home ownership have included both one-time benefits, from transfer and title fees and taxes and fees from construction, and ongoing benefits from increased tax receipts from new households (NRC 1998). For example, local governments receive approximately 1.25 percent of the sale price of a home in fees and taxes (Census of Governments 1996). HomeSight has estimated that in sales, property and excise taxes, it has generated over \$3.3 million in government revenues. Based on what its executive director believes are conservative estimates, HomeSight also projects that by 2006 it will have paid back the government subsidies it has received.

Direct benefits are easier to estimate and justify than are the indirect “spin-off” benefits from the economic stimulation induced by housing development and neighborhood revitalization. For example, if much of the increase in sales of furniture in Houston’s Fifth Ward can be attributed to the housing development by Fifth Ward RDC and Habitat for Humanity, then a portion of the increase in sales tax receipts is an indirect fiscal benefit of that development. The volume of furniture sales subject to state sales tax in 1998 for the two zip codes covering Fifth Ward was at their highest level since 1986 (the earliest date for which

data were available), and this amount more than doubled in 1999. The \$2.9 million in furniture sales subject to state sales tax (6.25 percent) in 1999 provided more than \$180,000 to the state treasury. Similarly, the retail sales increases in Judkins Park also provided significant increases in sales tax receipts for their state and local governments.

Since some of the increases in housing prices can be attributed to nonprofit housing development, so can increases in property tax revenue. For example, in Judkins Park housing prices increased 95 percent during the three and a half years between 3rd Quarter 1995 and 1st

Quarter 1999, compared to 28 percent for the city as a whole. If one assumes that without HomeSight’s for-sale housing development, housing prices in Judkins Park would increase at the same rate as the city, then the average price in the neighborhood for a single-family home would be \$197,715 dollars instead of about \$300,000. Thus it can be argued that HomeSight’s efforts provided more than \$1,000 per single-family house in additional property tax revenue, assuming a local property tax of 1 percent. Impacts on the city’s treasury range into the millions of dollars per year.

10

Conclusion

The case studies show that the economic impacts of community-based homeownership programs can be estimated with a fair degree of confidence. In certain cases, such as Seattle’s Judkins Park, the impacts are clearly demonstrated by significant changes in the indicators, even compared to the positive changes in the city as a whole. In other cases, there appears to be little or no impact (East Shaw) or the impact is overshadowed by other factors (West Shaw). In the Fifth Ward, the impacts on the real estate market may just be beginning and further evidence of change can be found when looking closely at certain retail sales data and crime statistics. Kalamazoo’s Northside may be just beginning a revitalization that is not reflected in mortgage values. However, putting a “bottom-line”

figure on the economic impact, or on the fiscal revenue generated, may not be possible.

The Judkins Park and Fifth Ward case studies also demonstrate that development thresholds exist: there is a point at which a critical mass of perceptions change and investment causes a marked change in economic indicators. While reaching a threshold may have some negative consequences (such as triggering middle-class gentrification and its concurrent housing price increases, to the detriment of lower-income households), it is important to understand how and why development thresholds occur. Community groups have limited resources and attracting private investment and middle-income households is often used as a means to further neighborhood revitalization. This research has

not determined how the thresholds were reached, only that there were significant changes in neighborhoods demonstrated by changes in perceptions and quantitative indicators. The research has suggested what factors play a role in reaching thresholds: spatial and temporal concentration of housing development; types of housing, both new construction versus rehabilitated housing and single-family versus multi-family; proximity to the central business district; the health of the local economy; and the baseline social and economic conditions that were present when development began.

The uneven availability of data limits the extent to which the necessary analyses can be performed. The data for Seattle were comprehensive and thus allowed for a thorough analysis. For the other case studies,



however, much of the data was not available, or a surrogate—HMDA mortgage data—had to be used. HMDA data are valuable tools for analyzing neighborhood development and may prove to be a useful and accessible tool for this type of research, but their accuracy in predicting changes in home prices needs more study. While the correlation between average sales prices and average mortgage amounts was strong for Seattle, this association may not hold up in other markets.

The limits of examining only quantitative data, even when available, are brought out by the Shaw case study. Without knowing that other factors played an important part in triggering West Shaw's rapidly rising real estate prices, one might have attributed them entirely to local homeownership programs. This case illustrates the importance of using both quantitative and qualitative information to put together a more accurate portrait of change. Absent a discussion of Shaw's economy with those most familiar with it, a researcher (or prospective funding source) might have exaggerated the role of CDC-sponsored housing development in the revitalization of West Shaw. In fact, it is likely that the housing developed in West Shaw, along with demand pressure from the west and other development in the neighborhood, did help to stimulate housing price increases. However, this does not mean that nonprofit homeownership program development was the *primary* cause of real estate price increases as appears to have been true in other case studies.

The possible movement of gentrification into West Shaw and the success of HomeSight in developing Judkins Park—to the point where it attracted many middle-class households—creates challenges for community developers. As the data indicate,

the availability of affordable homes for sale and apartments for rent declined in Judkins Park as the neighborhood took off. The revitalization of the neighborhood changed it from a place of open-air drug markets and drive-by shootings to a desirable place for middle-income households. Certainly no one could argue that this is a bad thing, but the increase in real estate prices may force those unable to purchase homes or who are facing increased property taxes on a fixed income to relocate. Interviewees in Shaw stated that some long-time residents there were beginning to be driven out—to less desirable and thus lower-priced neighborhoods—because of increased rents. This raises concerns about the problems that may come with reaching a development threshold and demonstrates the need for community development efforts to be comprehensive, addressing not just issues of place but also of people.

The analyses performed in this study were based on descriptive statistics and qualitative analysis. No econometric methods were applied. In other studies of neighborhood change, a number of statistical and econometric tools have been applied to testing thresholds, such as spline regression analysis (Galster et al 1999, Quercia and Galster 1999), and the effects of development across an area, such as the methods used in spatial econometrics (Can 1998, Anselin 1998). These methods have not been applied to studies of development at the neighborhood level. However, this research, in helping to understand the dynamics of neighborhood change, may allow for a more accurate estimation of the value of econometric models.

The roundtable discussion of the preliminary findings highlighted some of the shortcomings of this type of research and identified priorities for further study. The primary weaknesses

identified were the lack of a *counterfactual* (comparing trends in a similar neighborhood lacking CDC for-sale housing development); the limited availability of broadly useful neighborhood-level *baseline* data against which to measure change; the limited *causal* link between housing development and retail sales; and the lack of analysis of what *about* increased homeownership created change. Further research areas identified include: how more sophisticated methods, particularly econometric methods, might be applied to neighborhood revitalization; how Home Mortgage Disclosure Act data might be used by community groups; whether change in the retail mix or in bank deposits might be good indicators; and how the negative effects of gentrification in revitalized neighborhoods can be mitigated.

Community-based homeownership programs are turning distressed neighborhoods around and making them desirable places to live and to invest in business. The evidence of this change is clearly visible in many places, and stories of changed lives and new beginnings can be heard nationwide. However, there is still a scarcity of quantitative evidence that homeownership programs are having a significant economic impact—in short, that they “pay off”—and the tools to measure that impact are still insufficiently refined. This study indicates both the limitations and the potential of this kind of analysis. Further research should be of value to those who are understandably concerned with the bottom line. While the value of anecdotal evidence should not be underestimated, the need to describe neighborhood revitalization in quantitative, economic terms can only increase in the years ahead, and adequate resources should be devoted to meeting that need.

Appendix:

Methodology

Overview

Case studies of neighborhoods in the cities of Washington, Seattle, Houston, and Kalamazoo were used to assess the impact of for-sale housing development by nonprofit community groups, generally community development corporations (CDCs), on economic indicators for those neighborhoods. The neighborhoods were selected primarily because each had seen a significant amount of this kind of development over a reasonably long span of time (7-18 years). For each case study, local representatives of the Local Initiatives Support Corporation were consulted to gather information on neighborhoods in the cities they served. Each case study involved: 1) gathering data on nonprofit housing development, including when and where houses were built or rehabilitated for sale; 2) interviewing selected experts on the neighborhood economy; 3) gathering data on local indicators of economic development, including housing prices, commercial activity and crime rates; and 4) analyzing the indicators for trends over time and the relationship of the trends to the nonprofit housing development.

Neighborhood Boundaries and the Data's Geographic Definitions

The neighborhood boundaries were defined by asking representatives of the CDCs what they felt was their area of responsibility and where they developed housing. However, the data gathered for the indicators did not necessarily conform perfectly to the area described by the CDC representative. Most of the data were available at the census tract level, which generally conformed well to the defined boundaries. However, some data were collected at the zip code and at the police beat levels. Exceptions to the geographic fit of the data and how they affected the analysis are described below.

Seattle's Judkins Park was defined as comprising four Census tracts: 89, 90, 94 and 95, the boundaries of which are shown on Map 1. The northern edge of the Tracts 89 and 90 was the same as described by the CDC representative: Yesler Avenue. The western edge of tracts 89 and 94 run along 12th and 13th Streets, while HomeSight saw its western edge as running northwest/ southeast along Rainier Avenue, leaving a large portion of tract 94 that was not in HomeSight's defined neighborhood. In addition, Tract 95 runs farther south than the southern edge of the neighborhood which runs along Bayview Avenue, leaving another half-square-mile outside the Judkins Park neighborhood. The eastern edge of tracts 89 and 95 extended approximately one-quarter mile more than the defined area, to the lakefront, an area with generally higher-

priced homes, but not as densely populated. Thus, the census tracts are not a perfect fit for Judkins Park. However, the data were only available at tract level and HomeSight developed homes in all four tracts.

Various analyses were run to determine how the differences in boundaries might affect the conclusions drawn from the data. For example, the change in median price per square foot was examined for each tract individually. Prices increased most in tracts 89 and 95, the two tracts where HomeSight did most of its development. Changes in the number of incidences of crime, both total and violent, followed very similar patterns for all four tracts. Retail sales were also examined by individual tract and while the greatest increase was in tract 94, which also most of the volume for the four tracts, the other tracts also had significant increases. Because of the boundary problems, the report describes retail sales changes for just tracts 89 and 90 as well as for the four tract area.

Houston's Fifth Ward was defined for the study as comprising nine census tracts: 201.01, 201.02, 204, 205.03, 205.98, 206.01, 206.98, 207.03, and 208.02 (Map 3). While the boundaries described by the executive director of Fifth Ward CRC did not include tracts 206.01, 207.03 and most of 208.03, the organization developed 45 units in those three tracts. Tracts 203.01 and 208.03 were included in the analysis of the number of houses developed as they are contiguous to the Fifth Ward tracts and had 38 units developed by Fifth Ward CRC and Habitat for Humanity, Houston.

The zip codes used for retail sales included large areas not part of Fifth Ward proper. For example, zip code 22026 in the north included six census tracts outside Fifth Ward that had a 1990 population of 9,500. Zip code 22020 included six census tracts outside Fifth Ward, though two of those tracts are those included in the analysis of housing developed, 203.01 and 208.03. Police Beat 7C10 used for crime data included a few blocks east of Fifth Ward's eastern boundary, though these were in tract 203.01 where 36 for-sale homes were developed. The beat also included parts of tracts 502 and 205.01, west of Route 59.

Washington, D.C.'s Shaw was defined as comprising eight Census tracts which conformed to the definition provided by the executive director of the CDC that developed most of the housing used in this study.

For the Kalamazoo neighborhoods, the census tracts conformed closely to both neighborhoods, with small exceptions. Of the two census tracts that comprise Edison, 9 and 10, a few blocks of the northern tract, 9, are out of the Edison neighborhood. However, this is a sparsely populated, industrial area. Likewise, the northern edges of the two tracts comprising Northside, 2.02 and 3, are not considered part of that neigh-

borhood, but are primarily also industrial areas. The crime data for Kalamazoo were based on the city's geographic definition of the neighborhoods which are those also used by the community groups.

Data Sources and Analyses

Real estate data for Washington, D.C. and Seattle were purchased from First American Real Estate Solutions, which collected data on mortgages for the last two sales of a property and were enhanced by data from the recorded deeds. Annual home sale prices for Seattle's Judkins Park were determined by taking the median (Figure 2) prices for all sales of single-family homes for that year in the four census tracts that defined the neighborhood. Single-family homes accounted for over 90 percent of all residential real estate sales in the Judkins Park census tracts. Average single-family home price for the selected quarters were used in order to compare changes in Judkins Park with those in the city overall (Figure 3). Data on city prices were provided as averages for the selected quarters. Median price per square foot (Figure 4) divided the median prices by the square footage reported in the real estate data.

Average annual mortgage amounts for Houston and Kalamazoo, as well as the number of mortgages originated, were determined from an analysis of Home Mortgage Disclosure Act (HMDA) data provided by the Federal Financial Institutions Examination Council (FFIEC). This data set of all mortgage applications includes: 1) the purpose of the loan, whether it is for home purchase, improvement or refinancing; 2) whether the unit is for owner-occupancy or not; 3) the action taken on the loan, whether it was denied, originated, withdrawn or other action; 4) the amount of the mortgage applied for; and 5) the income level of the applicant; 6) whether the loan uses conventional or subsidized (e.g., Federal Housing Administration) financing; and 7) the census tract in which the property is located. The data are available for the years 1992 through 1999. Figures were determined by using only originated mortgages that were for home purchase by the owner-occupant. The data were extracted at the county level and then census tract level data were parsed out of the county data and aggregated for the neighborhood.

Average sales prices for the four Seattle tracts, plus three additional contiguous tracts, were correlated with average mortgage amounts for home purchases by owner-occupants. The results were based on over 1,500 sales and approximately the same number of mortgages, that were aggregated into 56 observations, seven tracts times eight years. The resulting Pearson's r was 0.94.

Median annual home sale prices per square foot for Shaw (Figure 10) were determined in a similar manner to those for Judkins Park, however, only sales where single-family homes were listed as one unit (some were designated as two or three units) were used. In addition to those data, sales designated as townhouse/rowhouse and as one unit were also used due to nature of the housing stock in Washington, D.C., which is a densely populated city with fewer single-family homes than

most cities. The index comparing changes in single-family home values in East and West Shaw to the overall city used changes in median prices for single unit sales in Shaw with the annual average of the Housing Price Index from the Office of Federal Housing Enterprise Oversight, as described in the report.

Retail sales data were obtained from the state of Washington for Seattle and the State of Texas for Houston. Sales figures were adjusted for inflation using the consumer price index. Both sets of sales figures are based geographically on addresses for tax returns and there is no way of knowing whether the transactions that the tax records represent took place in that geographic area (zip codes for Houston, census tracts for Seattle). However, while absolute values of retail sales may not be accurate, the data does capture trends of retail activity. The Houston data were also broken down into the types of retail sales most likely affected by housing development. Indicators of commercial activity for Washington, D.C. were estimated from commercial real estate activity, but no trends were noted. Crime data were provided by the police departments of each jurisdiction.

Data were also gathered for each of the indicators on a city-wide or county-wide basis for comparison purposes. This was done in order to estimate the affect of exogenous factors on neighborhood-level data. Changes residential real estate prices, commercial activity and crime rates at the city or county level represent the effect of exogenous factors. City-wide or county-wide data that were comparable to neighborhood level data were used where available to examine differences between the two geographic levels. In some cases, such as price per square foot for residential real estate, comparable data were not available.

Finally, data on CDC housing development for sale were provided by the CDCs themselves, or by Habitat for Humanity, which builds low-income housing in many neighborhoods. These data were gathered by year and by location (census tract, or neighborhood for Kalamazoo) of the housing developed.

The Interviews

In order to determine how important the housing developed by local CDCs was to changes in the indicators, interviews with those knowledgeable of the neighborhood and its development augmented the quantitative analysis. Interviewees included bankers, local government officials and community representatives. A standardized questionnaire was used to determine: 1) how important respondents felt the CDC's housing development had been to changes in the neighborhood; 2) what other factors may have caused changes in real estate prices, commercial development or crime rates; and 3) whether perceptions about the neighborhood had changed and, if so, when they changed. Thirty-four interviews were conducted across the four case studies, with at least eight persons interviewed for each city. The duration of each interview was approximately one hour.

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