Incentive$ for Urban Pioneers

In Housing Policy, One Size Does Not Fit All

by Peter Gagliardi, HAP, Inc.

Massachusetts housing policy generally works as intended in the Greater Boston area but has inadvertently become an obstacle to the revitalization of the Commonwealth's smaller cities. Tools that provide affordability in well-off areas do not create the incentives necessary to attract investment to blighted sections of secondary cities. And preventing homeowners from reselling at a price near a market rate reduces the likelihood that families can create wealth and move out of poverty.

Forgotten Cities

The plight of smaller Massachusetts cities has recently received significant attention. *The State of the Cities: Revitalization Strategies for Smaller Cities in Massachusetts*—written by Karen Sunnarborg for Citizens Housing and Planning Association and the Massachusetts Association of Community Development Corporations (CHAPA/MACDC) and released in December 2006—takes a broad look at several such cities. The Pioneer Institute, meanwhile, launched an effort in 2005 to promote the revitalization of what it calls "middle" cities, with support from the Shelby Cullom Davis and State Street Bank Foundations. At a February 2007 conference, "Revitalizing Middle Cities: New Ideas and Policy Tools to Improve the Business Climate," Pioneer unveiled a report recommending a coordinated approach to the rejuvenation of 14 middle cities.

The CHAPA/MACDC study asserts that "many of Massachusetts' smaller cities offer an interesting opportunity to apply the best current thinking about smart growth development to the pressing need for more housing of all types. Yet, these very cities have often been overlooked in policy formulations geared toward the thriving Boston metropolitan market and expanding suburban market."

Regardless of the label—middle city, secondary city, smaller city, weak market city—we are talking about a metropolis with 25,000 to 175,000 people, one that did not enjoy the benefits of the boom recent real estate boom times.

The conclusions of both reports are strikingly similar: public policy has shifted away from revitalization of neighborhoods and downtowns in smaller cities, further isolating communities that have more than 40 percent of the state's population, including "a disproportionate share of the poorest residents of the Commonwealth," as the MACDC/CHAPA study puts it.

Tools in Need of Polishing

As part of the Pioneer Institute's initiative, I recently authored a white paper, *Housing Programs in Weak Market Neighborhoods: Developing the Right Tools for Urban Revitalization*, exploring the suitability of today's policies in the face of decay and abandonment in our smaller cities.[1] On the basis of 30 years of experience in the field—the last 15 directing HAP, a regional housing partnership based in Springfield—I conclude that the current tools are not appropriate to the task of revitalization.

Admittedly, affordable housing is in great demand and short supply in Massachusetts. Even if the overheated housing market has cooled somewhat, the reductions have not been sufficient to address the competitive disadvantage created by having higher housing costs than other states. So it is understandable that affordability has driven public policy for housing and community development since the boom years of the middle to late 1980s.

Because many lower-income households continue to struggle with housing costs that exceed their income, the state and many municipalities have focused on creating affordable housing and making sure it stays affordable for years to come. Meanwhile, neighborhoods in cities such as Worcester, Fitchburg, Lawrence, New Bedford, and Pittsfield are more in need of ways to handle vacant properties, abandoned buildings, aging infrastructure, high crime rates, and concentrated poverty. They need a middle class—either outsiders moving in or city dwellers moving up through asset creation.

Consider Springfield

In Springfield, for example, four neighborhoods have been targeted for revitalization by local and state government. Unfortunately, bringing in new homebuyers and economic diversity as part of a comprehensive revitalization strategy has not been a high priority for state government. Public policy continues to focus almost exclusively upon affordable housing, resulting in rules that impede revitalization in Springfield and other weak market cities. One size does not fit all.

A case in point is Springfield's Old Hill, a neighborhood of 4,700 people led by dedicated, long-term residents such as Omega Johnson, president of the Old Hill Neighborhood Council. For more than 30 years, Johnson has lived in the neighborhood, raising children who have gone on to complete college. Leaders like Johnson struggle against daunting odds. In the 12-month period ending in September 2006, the Multiple Listing Service reported only 22 sales of residential properties in Old Hill, where nearly 10 percent of all parcels (134) are vacant or boarded-up. The average sale price was $86,000.

Weak market neighborhoods like Old Hill challenge every level of government. Abandoned parcels and reduced property values mean lost municipal taxes, losses to lenders, and the loss of equity for remaining residents. For city government, those losses are compounded by the cost of demolishing derelict buildings and clearing debris from vacant lots. One Springfield official notes that the city spent $2 million in a one-year period beginning in summer 2005 to demolish derelict buildings. It spends several hundred thousand dollars annually to maintain vacant parcels, which attract dumping. For the state's financial control board, which currently oversees Springfield, struggling neighborhoods represent a barrier to successfully restoring Springfield to long-term health.

Thinking It Through

As my organization, HAP Inc., has worked with our partners in the Old Hill and Six Corners neighborhoods of Springfield, we have discovered a difficult truth. The Commonwealth's current housing programs address the need for affordability in booming markets but do not to encourage revitalization of weak market neighborhoods. Current programs stipulate that housing assisted by state funds must have deed restrictions to keep the property "affordable" for 30 or even 50 years. These restrictions mean that houses can be sold only to income-eligible first-time homebuyers at a price that severely limits the seller's share of any appreciation.

People considering buying a home in a troubled neighborhood may need incentives other than price.

Hap, Inc., courtesy photograph

For small cities, excessive deed restrictions on the resale of properties and restrictive home-buyer eligibility run counter to the goal of revitalization.

For small cities, excessive deed restrictions on the resale of properties and restrictive homebuyer eligibility run counter to the goal of revitalization. While such restrictions are appropriate in a super-heated housing market, they hinder revitalization in weak market neighborhoods.

A person given the opportunity to own a $700,000 home for $250,000 in Weston might see the inability to resell at market rate as a fair trade. But in Old Hill, we are asking a new generation of homeowners to be pioneers, buying a home for $110,000 in a market where the average sale price is $86,000 and the highest comparable in the neighborhood is $118,000. If the Weston buyer were able to resell the affordable house at market rate, he or she would receive a huge gift of equity. But in Old Hill, the new owner is buying at the market price with no immediate prospect of personal gain and a significant risk of continued price stagnation or even decline.

For a revitalization strategy to succeed, we must create incentives to attract a new generation of homeowners to the Old Hills of weak market cities across New England. Policies should not create a disincentive and discourage potential buyers.

The failure of current Massachusetts housing programs to include a strategy to revitalize older industrial cities is a failure to capitalize on their opportunities for growth. Our objective should be to create incentives to bring new investment and new homeowners into the struggling neighborhoods of smaller cities.

Government should not promote gentrification that would force people out of their homes, nor should it aim to build enclaves of only the poorest of the poor. It should have policies that fit the situation. For Omega Johnson and her neighbors, attracting new homebuyers into the neighborhood is the key to restoring the community to its former status as a decent place to live and raise a family.

Peter Gagliardi *is the executive director of HAP Inc., a regional housing partnership based in Springfield, Massachusetts. He serves on the Federal Reserve Bank of Boston's Community Development Advisory Council.*

Endnote

1 See http://www.pioneerinstitute.org/publications/publications_all.cfm.