

# HOMEOWNERSHIP ZONE INTERIM EVALUATION

## Executive Summary

### Overview of the Homeownership Zone Demonstration Program

The Homeownership Zone (HOZ) demonstration program was launched in 1996 by the U.S. Department of Housing and Urban Development (HUD) as part of a national strategy to expand homeownership. The goal of the HOZ demonstration was to do more than build new housing units. Rather, the HOZ Program was intended to test the idea that a well-designed, large-scale, mixed-income homeownership housing development could transform a blighted neighborhood into a stable, vibrant community where families would want to live.

HUD issued a Notice of Funding Availability (NOFA) for two competitive HOZ funding rounds. For the first round in 1996, HUD made \$30 million in Economic Development Initiative grant funds available together with companion Section 108 Loan Guarantees. HUD selected six HOZ proposals from 103 eligible applicants. For the second round in 1997, HUD made \$20 million in recaptured Nehemiah grant funds available. HUD selected another six HOZ proposals from 67 eligible applicants. The following chart shows the 11 HOZ cities and the names of their HOZ neighborhoods.

### Homeownership Zones

ROUND ONE		ROUND TWO	
Baltimore, Maryland	Sandtown-Winchester	Flint, Michigan	University Park
Buffalo, New York	Willert Park Village	Indianapolis, Indiana	Fall Creek Place
Cleveland, Ohio	Villages of Central	Long Beach, California*	
Louisville, Kentucky	Park DuValle	New York City, New York	Mount Morris
Philadelphia, Pennsylvania	Cecil B. Moore	San Juan, Puerto Rico	Cantera Peninsula
Sacramento, California	Del Paso Nuevo	Trenton, New Jersey	Canal Banks

\*Long Beach subsequently withdrew from the HOZ Program.

The winning HOZ proposals followed three general configuration patterns:

1. Compact—complete rebuilding or rehabilitation of an entire, contiguous target area.
2. Scattered—entire block or multiple block developments separated from each other by blocks of remaining older units, within a contiguous area.
3. Infill—single units and small groups of units built or rehabilitated between preexisting units within a contiguous area.

Every project was guided by a master plan and strategy inspired by “New Urbanism” design principles. Each plan included the development of approximately 300 new homeownership units

and other improvements, the creation of local public-private partnerships, and the leverage of significant other investment. Each city committed to sell at least 51 percent of the new homes to low- and moderate-income families. All cities proposed new construction. Only six cities planned to rehabilitate existing houses as well. Several cities also undertook public housing modernization or HOPE VI projects as part of their strategy to transform their HOZ neighborhoods.

The physical structure of the target areas and the availability of vacant land or buildings accounted for most of the differences among the cities' initial plans. These preexisting conditions influenced the degree to which specific New Urbanism principles could be applied and the type of challenges that each city faced.

## **Purpose of the Interim Evaluation**

This interim HOZ evaluation had three primary goals:

1. Collect baseline data for a final HOZ evaluation that will be undertaken at the completion of the demonstration program.
2. Assess how well each city has been able to implement its approved HOZ proposal so far.
3. Identify best practices or guidelines that other communities can use to transform their deteriorated neighborhoods by using mixed-income homeownership development.

Case studies were developed for each of the 11 active HOZ sites. Three basic techniques were used: (1) HOZ Program document review; (2) in-person site visits at eight sites; and (3) social, economic, and geographic data analysis. Data analysis methods included data extraction and synthesis; cross-case analysis; and geographic, photographic, and economic analyses. Data were obtained from Census Bureau data sets, HOZ quarterly progress reports, and other public sources.

## **Interim Findings**

At the time of the data collection, most of the HOZ sites were still several years from completion. Therefore, much of the information in this report, including quantitative statistics, is based on current data and does not reflect the results of completed HOZ plans and strategies.

Nevertheless, the findings of this interim evaluation already demonstrate that the HOZ approach has created significant, positive changes in the target areas. The evaluation identified a number of lessons that have been learned. These lessons can guide other communities that hope to use concentrated mixed-income homeownership development to revitalize their deteriorated areas.

By the late 1990s, when the HOZ initiative was getting under way, moderate- and high-income households had departed these inner-city neighborhoods. The HOZ sites had extremely low rates of homeownership, large tracts of vacant or abandoned property, high crime rates, and poor reputations. Today, most of these neighborhoods have become, or are becoming, vibrant homeowner communities. Several of the HOZ cities now have waiting lists for the new homes that are being built.

This evaluation identified a number of factors that contributed to successful outcomes. For all of the HOZ cities, the federal demonstration grant was the critical incentive that led to the creation

of the HOZ target area and the concentration of scarce resources within this area. Each city's federal contractual obligation to complete its HOZ strategy ensured that this commitment was maintained over many years despite unexpected delays or changes in city administrations. The next most important factor was local political leadership. This leadership led to sustained financial commitments to the project. The targeted approach convinced investors and homebuyers that the neighborhood was changing for the better. Innovative marketing techniques helped tell the story. The most successful HOZ cities designated HOZ administrators to coordinate the numerous activities and partners and interface with other city agencies to solve problems. These cities also used one or more master builders or developers and a "presales" approach that ensured that the production of homes matched the availability of qualified buyers. Subsidized homeownership loans provided an additional incentive that attracted homebuyers. Some of the successful areas benefited from strong regional economies and rising local real estate markets, as well.

The evaluation also identified a number of factors that prevented some cities from achieving their HOZ goals. Unanticipated infrastructure, land acquisition, or environmental problems impeded progress and escalated costs. The initial success of some HOZ sites resulted in rising real estate prices and difficulties in purchasing land from private owners who no longer wished to sell. For the two least successful HOZ cities, larger citywide issues severely affected their ability to implement their HOZ strategies. Both cities struggled with administrative and financial capacity problems that impacted not only their HOZ initiatives but all of their HUD-funded community development programs.

Most HOZ cities have achieved HUD's expectations for visible improvement, local public-private partnerships, and leveraging of funds. To date, more than \$273 million in other funds have been invested in the HOZ sites for an overall leverage ratio of 5:1. The HOZ strategies have blended the architectural styles of new buildings with the best historic design features of the neighborhoods. Often, the new homes offer amenities that are comparable to those of homes in alternative suburban areas. In some cases, new homebuyers have been able to select from several model home designs and choose from among optional fixtures or finishes. The more advanced HOZ sites are beginning to evidence spillover effects resulting in increased private investment in adjacent areas and the revitalization of nearby commercial areas. Most of the HOZ sites have received positive local press coverage. Several HOZ sites have received national recognition and awards from the National Building Museum (Louisville), American Planning Association (Indianapolis), Urban Land Institute (Indianapolis), and the National Association of Home Builders (New York City and Trenton).

The HOZ cities have been able to achieve to varying degrees the goal of developing mixed-income neighborhoods. For most HOZ cities, the percentage of home sales to low-income homebuyers ranges from 51 percent (the minimum requirement) to 86 percent. The other homebuyers generally fall in the 80-percent to 120-percent of median income range—the target range for "workforce" housing. Four HOZ cities are exceptions to this pattern. Louisville successfully used purchase incentives to attract higher income homeowners. This approach resulted in the most economically mixed HOZ neighborhood. Two cities (Baltimore, and San Juan) sold all of their homes to low-income families. Baltimore used federal HOME Program funds, which require all assisted units to be purchased by low-income families. San Juan sold all homes to existing low-income residents. New homebuyers in most of the HOZ sites reflect the racial and ethnic characteristics of the original neighborhoods. Although most HOZ sites have some mix of incomes, only the Indianapolis, New York City, and Sacramento HOZ sites are racially or ethnically mixed.

None of the HOZ cities met HUD's expectations about the speed with which they would start construction and complete their HOZ strategies. HUD's Round One HOZ NOFA anticipated that HOZ projects could begin in 60 days or less after approval, and the Round Two HOZ NOFA specified a "rapid turnaround." These timeframes proved to be extremely optimistic, given the challenges faced by each of the HOZ cities: the extent of the initial deterioration and abandonment of the HOZ target areas; the associated problems with obtaining financing, acquiring land, rebuilding infrastructure, and changing public perceptions of the neighborhood; the scale of the HOZ initiative (averaging 300 new units); and the difficulty of identifying, counseling, and qualifying homebuyers, especially low-income, first-time homebuyers. Furthermore, a significant amount of time was needed to lay the groundwork for construction. Despite these challenges, after development reached a critical mass, perceptions changed, financing became easier, and sales increased. On average, it took almost 4 years before the first houses were constructed and 6 years to reach the 50-house mark. When this report was prepared, it was taking another 3 to 6 years before all new homebuyer units could be built and sold. The first HOZ cities are now reaching completion. New York City, Indianapolis, and Baltimore have all finished their last houses and were ready to close out their grants in 2006.

Perhaps the most important policy lesson learned from this study is that transforming a severely distressed neighborhood into a successful homeownership community takes time, but it can be done with sufficient patience, commitment, vision, and concentration of resources.