

HOUSING FOR

CHARLES LOCKWOOD

A DISCUSSION OF STRATEGIES FOR
BRINGING AFFORDABLE HOUSING AND
SOCIAL EQUITY TO METROPOLITAN AREAS.

More than 14 million American families spend more than half their income on housing, Stacey D. Stewart, president and CEO of the Fannie Mae Foundation, said in her opening remarks as moderator at a roundtable addressing affordable housing and social equity, held at ULI's fall meeting in Los Angeles last November as part of the ULI World Cities Forum series (see "Breaking the Cycle of Poverty," page 74, January).



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Roundtable Participants

MODERATOR: **Stacey D. Stewart**, president and CEO of the Fannie Mae Foundation in Washington, D.C.

PANELISTS:

Michael Banner, president and CEO of the Los Angeles Local Development Corporation in Los Angeles. He is chair of ULI Los Angeles, a ULI trustee, and a ULI inner city adviser.

Marty Jones, president of the Corcoran Jennison Companies in Boston. She is a ULI trustee and vice chair of programs for ULI's Affordable Housing Council.

John McIlwain, ULI/J. Ronald Terwilliger Chair for Housing and a ULI senior resident fellow in Washington, D.C. He also was founder and managing director of the American Communities Fund at Fannie Mae, former president and CEO of the Fannie Mae Foundation, and former president of the National Housing Conference and the National Housing and Rehabilitation Association.

Tony Salazar, president of West Coast operations for McCormack Baron Salazar, based in Los Angeles. He has been on the boards of the National Council of La Raza, the California Community Foundation, and the Enterprise Social Investment Corporation, and was executive director of the Kansas City Neighborhood Alliance.

John K. Stewart, founder and president of the John Stewart Company in San Francisco. He also is on the boards of the National Housing Conference in Washington, D.C., and the Low Income Housing Fund of San Francisco, and was chairman of the NCB Development Corporation.



Moderator Stacey D. Stewart

Jones, president of Corcoran Jennison Companies in Boston. As more projects are constructed with minimal negative impact and often positive results, public opinion should slowly start to change. Another significant challenge is the lengthy predevelopment phase, which can last several years, chasing away many for-profit developers who cannot take on that kind of commitment.

Michael Banner, president and CEO of the Los Angeles Local Development Corporation, said he sees hope for affordable housing in the growing number of people with nontraditional backgrounds, including people of color, who are entering the real estate business. "They'll bring a different sensibility to the industry, and they'll contribute bigger, broader solutions," he said.

Hot Markets, Cold Affordability

Probably the biggest challenge to affordable housing is high real estate values, which price many households out of purchasing a condominium or house. Even more problematic, values have risen far beyond the ability of subsidies to bring a housing unit's price down to an affordable level.

"The difficulty is that the price of construction has been growing, land prices are increasing, and housing prices have been climbing over the past 15 to 20 years at several times the rate of inflation while real wages have been flat," said John K. Stewart, founder and president of the John Stewart Company in San Francisco. "So, you've got this opening gap that would take a major national commitment to address, and I must say that I don't think we're going to see a major national commitment until we see a major national crisis."

According to some panelists, gentrification, which is often blamed for higher home prices, is not the issue. "Gentrification is good," noted John Stewart. "The issue is

"There is no place in this entire country—not one place—where a family earning the minimum wage can afford a two-bedroom apartment," said Stewart. "The real question is, how much longer can this go on before there are permanent and irreversible consequences that will irreparably damage our social fabric?"

In a wide-ranging and informative discussion, Stewart, five roundtable panelists (see box), and the audience talked about the many different challenges to—and some strategies for—bringing affordable housing and social equity to metropolitan areas.

Efforts to provide affordable housing encounter many familiar hurdles. In most communities, residents believe that construction of affordable housing will lower a neighborhood's property values, bring in "undesirable" elements, and lead to an increase in crime. These fears, however, often have little to do with reality. "The impact of one additional development on schools and fire [protection] and everything else is blown out of proportion in the stereotypical suburban neighborhoods," noted Marty



Roundtable participants, from the left, Marty Jones, John McIlwain, Tony Salazar, Michael Banner, and John K. Stewart.

the displacement of people. There are ways to minimize the impact of displacement, but no ways that I've seen where people can stop it." Local government, he said, must take "the opportunities presented by gentrification—of rising values, rising tax revenues—and use those aggressively through housing trust funds to provide housing for people who are being displaced, and impose effective and well-designed inclusionary zoning programs. But there is no city in the United States that I've been to—and I've been to a whole lot of them lately—that's providing anywhere near enough affordable housing to meet the need."

The panelists discussed a variety of strategies for finding the land needed for affordable housing, including land banking. Stacey Stewart suggested that cities can set aside acquisition funds that would be made available to affordable housing developers so they have ready access to capital to buy land before it becomes unaffordable.

John McIlwain, ULI senior resident fellow and ULI/J. Ronald Terwilliger Chair for Housing, as well as founder

and former managing director of Fannie Mae's American Communities Fund, sees opportunities in "lazy assets"—unused properties that are encumbered in some way. "We have approached two environmental groups in California and asked them about what lands are available that can be remediated," he said. "Military bases, for example, are some serious lazy assets that can also be put into play."

Local, Not Federal

One of the greatest challenges faced by affordable housing developers in the United States is the loss of federal action and financial help.

"I firmly believe that this is the worst administration that has ever been in office in trying to deal with affordable housing," said Banner. "It is totally decimating everything related to affordable housing that it can."

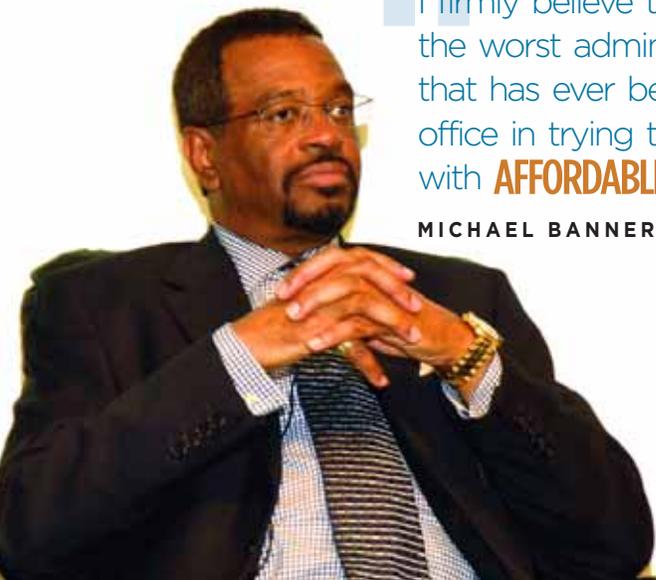
Actually, the federal government has been "walking away from the housing issue as fast as it could since the 1980s," John Stewart noted. "Politically, in Washington, there's no juice in housing issues.

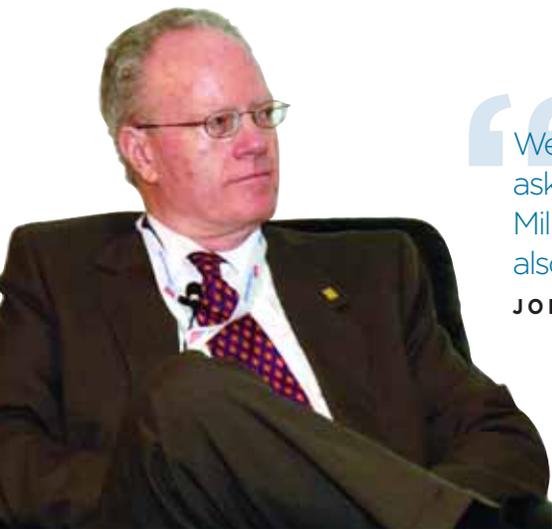
Locally, there's a lot. So, affordable housing is becoming more and more a state and local issue. But there's not enough local subsidy dollars to make up for the pullback of the federal government."

Still, state and local governments are stepping in with new incentives and policies like inclusionary zoning to lure—or push—for-profit developers into providing affordable housing. "I think inclusionary zoning is a wonderful tool," said Jones. "The only issue is it has to be appropriate for the market. The per-

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JOHN MCILWAIN

centage and the standard that works in Boston may not be the same percentage and standard that works in Baltimore.” Inclusionary zoning also has to be flexible enough to adapt to market changes. “But a lot of times these

inclusionary provisions are done in such a political light that they get written in stone, and they can’t be changed to respond to different market conditions,” she said.

Mixed-Income Developments

A critical strategy the panelists mentioned repeatedly to address both affordable housing and social equity is implementation of mixed-income development.

“Mixed-income communities are something that solve more problems than we originally thought,” said Tony Salazar, president of West Coast operations for McCormack Baron Salazar, based in Los Angeles. “We are tracking kids who were in public housing and now are in mixed-income communities. Their educational attainment rates are much higher and crime has gone down. We have taken public housing sites—areas that were distressed and not very good real estate properties—and reintegrated them back into the neighborhoods with street grids, architecture, and social services, and we have created much healthier communities.”

John Stewart also has found success in his mixed-income developments. He noted that his most reliable tenants for paying their rents and mortgages on time among his 80/20 (80 percent market-rate units, 20 percent affordable) and 60/40 projects have been people in the lowest income category—generally earning 50 percent of the median—as opposed to market-rate residents. This has made both financial institutions and the neighborhoods with the new projects view mixed-income developments favorably, he said.

Audience member Andrea Pizziconi, a New Haven, Connecticut developer, noted the benefits of mixed-

income developments for children. “Kids who grow up in high-needs communities lack formal role models in primary labor markets, which perpetuates the problems of whatever market they are in,” she said. “By putting the kids in mixed-income projects, they now have access to role models in their new neighbors. The effect on the kids is profound.” At 3 p.m. in the Ninth Square mixed-income district in downtown New Haven, said Pizziconi, “the school buses come through and drop off a lot of kids with all the colors of the world who are living there right next to the doctors and lawyers and the Yale grad students. They’re all living together, happily, and they love that and they feel enriched. It is very inspiring.”

One key to mixed-income development, participants agreed, is high-quality design. Stacey Stewart discussed the power of good design to overcome neighborhood opposition to affordable housing. “If it is well designed, it may not even be obvious that there are low-income families—in some cases on public assistance—living in those units,” she said.

Audience member Margaret Salazar, a public policy graduate student at the University of California at Berkeley, mentioned several tools that encourage mixed-income development, including incentives, inclusionary zoning ordinances, community benefits agreements, and the streamlining of state regulations for infill housing developments.

Social Engineering

“We are the biggest problem here,” said Tony Salazar. “When I say ‘we,’ I am talking about the real estate development business. Since World War II, what we have done is create real estate developments that separate people by incomes. We have literally separated everybody.”

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TONY SALAZAR



“So, maybe housing needs to have some degree of social engineering,” responded Stacey Stewart.

“There is no question about it,” Salazar replied.

All of the panelists agreed that simply constructing affordable housing and mixed-income developments is not enough. “Housing in combination with elements that really do provide the basis for a sound community—education, employment, public safety, health care—begins to paint a picture of what we might call social equity,” said Stacey Stewart.

That pushes real estate developers far beyond the mere construction of buildings. “Your corporate mission has to be a social mission,” maintained Tony Salazar. “We all work for a profit, but the mission is not about maximizing our economic potential.” Salazar’s firm, a for-profit company, has set up a social service department that looks at the problems within its housing communities, then brings social agency services aggressively back into the communities to solve those problems. “We are seeing dramatic differences in the 50,000 people we have been housing. More kids are going to college. More kids are becoming professionals. They are not in minimum-wage jobs.”

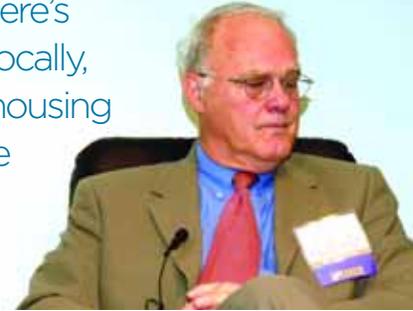
Connecting education to affordable housing is vital to creating social equity. Early on, Salazar’s company undertook a 400-unit development that had an elementary school across the street. Of the 500 children in the development, only about 10 percent of them went to that school. The rest were bused out. “So, we cut a deal with the school district,” said Salazar. “We told them we’d put \$3 million in to renovate the school, but we need to control who the principal is, and that principal has to control who the teachers are, and all the kids living in our development need to go to the school. And, you know, after a few years, the educational attainment rates got higher.”

Audience member Pizziconi mentioned one educational opportunity for affordable housing and mixed-income developers. “There are 200- to 500-student charter schools that are looking for facilities all over the place,” she said. “They can go into central business districts, they can pay rent, they’re backed by the municipal government. They can make your numbers work and you can make money off them, but you will also start to trail blaze and solve many urban problems.”

Banner pointed out the importance of creating municipal economic development strategies that include job development in areas with affordable housing and mixed-income neighborhoods. Otherwise, cities will just

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JOHN K. STEWART



replicate the current barriers to social equity. The Community Preservation Development Corporation, for example, a nonprofit organization in the Washington, D.C., region, preserves affordable housing communities by acquiring subsidized properties that would otherwise go into the private market. It also provides those communities with a variety of social services that include job training and placement programs.

“These very important support services enhance the strength of the community as a whole by advancing the strength of families and individuals,” said McIlwain. “What we have seen is that the income of these families actually grows. They come in perhaps unemployed, get educated through these programs, and then wind up getting jobs—at first maybe fairly humble jobs, but we have gotten people into fairly successful jobs in technology companies like Bell Atlantic.”

McIlwain pointed to the success of Renee Glover, CEO of the Atlanta Housing Authority (AHA), who pioneered mixed-finance, mixed-income residential development in the 1990s in Atlanta and partnered the AHA with local builders, bankers, foundations, school boards, and even the YMCA. Glover designed Atlanta’s HOPE VI program and initiated the city’s first HOPE VI property, now known as Centennial Plaza. The program Glover created provided families in the neighborhood with training and job opportunities to raise their incomes.

“The affordable housing challenge is part of a larger set of social challenges that will be solved together or will not be solved at all,” Stacey Stewart declared. “We must take a much more holistic approach to affordable housing. To begin to create social equity, housing really has to be interconnected with education, employment, transportation, and health care.” **U**

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