Lessons from the Field: Three Case Studies of Mixed-Income Housing Development

Michael F. Schubert
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For the John D. and Catherine T. MacArthur Foundation

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A Great Cities Institute Working Paper

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Lessons from the Field:
Three Case Studies of Mixed-Income Housing Development

Introduction
This report presents three case studies of mixed-income housing development in three very different settings: Montgomery County, Maryland; Atlanta, Georgia; and Boston, Massachusetts.

Each case study presented here looks at mixed-income development from a different perspective based on local market conditions, the degree of political support and the financing and subsidy opportunities that existed at a given point in time. While each is different, they provide practical answers to basic questions crucial to making mixed-income communities successful. These include:

Is there a right proportionate mix of low-income and market residents?

What were the challenges in financing and in using various subsidies?

What was important in attracting residents who could pay market rates?

How were residents engaged in planning these developments?

In each situation, the mixed-income challenges were different. Montgomery County, Maryland, an affluent yet diverse area outside Washington, D.C., has a long history of making mixed-income development work. Here, the objective was to include low-income families in conventional developments through a variety of financing and zoning incentives. In more expensive markets, like Montgomery County, the challenge is to find ways to include affordable units in market rate developments.

Two other case studies profiled here, Harbor Point in Boston and the Village at Techwood in Atlanta, have a different orientation. Their focus is on ending concentrated poverty through transformation of large public housing developments. In these developments, an important component is attracting middle-income residents who can rent at market rates, and overcoming the stigma of the former public housing developments.

Despite differences in these developments, those involved with them see the provision of quality housing as more than simply creating physical shelter. In these examples, changing housing conditions was viewed as a catalyst for changing lives, for re-establishing effective patterns of neighboring, for opening-up employment opportunities, for changing relationships between service providers and those being served, for moving beyond despair toward hope. These case studies track valuable lessons about how collaboration happens and how people can contribute their skills and knowledge to building community.

The Village at Techwood, Atlanta, Georgia

Background

The Village at Techwood is a 900-unit mixed-income development planned for the site of two public housing developments -Techwood Homes and Clark Howell Homes. This planned development involves the demolition of 1,067 functionally obsolete public housing units and the construction of 900 mixed-income units in five phases over a four-year period.

The Village of Techwood is part of a larger public housing transformation called the Olympic Legacy Program, which focuses on the redevelopment of four public housing communities. In addition to Techwood/Clark Howell Homes, three other sites will be developed as mixed-income communities. The Techwood/Clark Howell Homes, John Eagan Homes and John Hope Homes are located within the Olympic Circle, the area being developed for the 1996 Olympic Games. East Lake Meadows is located in Southeast Atlanta. In all, a total of 2,935 public housing units will be demolished, to be replaced by 1,100 replacement units built on-site, the construction of 1,135 units in other locations, and by the provision of 700 Section 8 Certificates. The financing mechanism developed for the transformation of Techwood/Clark Howell Homes will provide the financial and legal model for the rest of the Olympic Legacy developments.

The Olympic Legacy Program is an ambitious effort aimed at ending the isolation of public housing residents from society at large. The program is described by the Housing Authority of the City of Atlanta (HACA) as a neighborhood revitalization effort, combining human development with the development of physical infrastructure. The physical development focuses on building high quality residential units with sufficient amenities to attract tenants from various income levels. The human development component focuses on providing quality schools that serve the development and on improving the life chances of public housing residents through job training and job placement.

History/Development Process

Techwood Homes, constructed in 1936, was the first public housing development in the United States. Clark Howell Homes, adjacent to Techwood, was built in 1940. Two high-rise projects, Palmer House and Roosevelt House, were built in 1966 and 1973, respectively, and are also located in the Techwood Redevelopment Area. Combined, they consist of 1,702 units and represent the largest public housing development in the HACA inventory.

Over the years, Techwood Homes and Clark Howell Homes received some modernization funding. However, the overall design and layout of the site and the properties, combined with physical conditions (including infrastructure), made radical transformation into a mixed-income community difficult, if not impossible.

Both developments were comprised of two story townhouses and three and four story walk-ups of concrete frame construction with concrete floors, steel windows, and flat roofs. Most of the major mechanical systems, as well as the sewer and water lines, needed substantial upgrading and the units lacked air conditioning. In addition, the walk-ups had interior stair systems, which became a source of social problems and subsequent danger to the tenants.

Given the poor condition of the properties as well as the fundamental deficiencies in unit layouts and how the buildings were sited, it made little sense to continue on a modernization course.

In 1993, HUD approved the sale of 114 units and 4.5 acres in Techwood Homes to the Board of Regents of the State of Georgia for the construction of the Olympic Village for the 1996 Summer Olympic Games and to create dormitory units for the Georgia University System. Also in 1993, HACA was awarded a $42.4 million HOPE VI Urban Revitalization Demonstration Grant for the

revitalization of Techwood Homes and 20 of the 63 buildings in Clark Howell.

Renee Lewis Glover, a corporate finance attorney, was appointed HACA Executive Director by the Board of Commissioners in 1994. Glover appointed a new senior management team committed to introducing mixed-income development as a means of transforming public housing. The new staff saw the need to achieve economic integration as a way of ending the isolation that has characterized public housing.

HACA's new direction was similar to the evolving vision at HUD about how HOPE VI funds could be used. HUD asked HACA to re-evaluate the original HOPE VI plan, to better address issues of deconcentration of low-income families by developing mixed income communities, leveraging public resources and providing supportive services to public housing residents. There emerged an opportunity to make this vision real at Techwood/Clark Howell.

By 1994, only 46 families remained at Techwood, a development with 457 units. Clark Howell, however, remained at close to full occupancy. With participation from residents at both Techwood and Clark Howell, HACA issued a request for proposals for a project manager to put together the necessary pieces and carry out the redevelopment for Techwood and Clark Howell Homes. The project manager/master developer selected was the Integral Partnership of Atlanta, a joint venture between the Integral Group, an Atlanta-based urban real estate development firm, and McCormick Baron and Associates Inc. of St. Louis, a national leader in the development of affordable housing. With resident participation a plan was put together to redevelop the entire Techwood/Clark Howell site as a mixed income community in phases over a four-year period.

DEVELOPMENT PARTNERSHIP

The ownership of the Village at Techwood is structured as follows:

Legacy I Limited Partnership, created through the sale of Low-Income Housing

Tax Credits (LIHTC) -- Limited Partners 97.0%
General Partners 3.0%
Integral Partnership; a Joint Venture between
The Integral Group and McCormick Baron and
Associates Inc 2.9%
Housing Authority of the City of Atlanta (HACA) 0.1%

The Housing Authority has entered into a 55-year ground lease with the development partnership which stipulates certain conditions around the number of public housing assisted units that will be part of the development during the period of the lease. At the end of the lease, the land and all improvements will revert back to HACA.

The Project Plan
Essentially, the plan to transform Techwood/Clark Howell Homes into the Village at Techwood has three components: a physical redevelopment component, an economic development component, and a supportive social services component.

The Physical Plan
Specifically, the plan is to demolish 1,067 residential units on a portion of the site. Those units will

be replaced by 900 new mixed income residential units. The unit mix is broken down as follows:

Forty percent (40%) or 360 units will be public housing replacement units funded through the use of HOPE VI funds and tax credits, available for families at 60% or below of median income.

Twenty percent (20%) or 180 units will be tax credit eligible units available for families at 50% to 60% or below of median income, with rents in the $500-$700 range.

Another forty percent (40%) or 360 units will be market rate units with rents in the $590-$1000 range.

In addition, 14 units will be restored and converted to non-residential use as called for in an agreement between the State Historic Preservation Office, the Advisory Council on Historic Preservation and HUD. These units will be used for the provision of community services and economic-development programs.

The plan also calls for a new elementary school to replace an existing school that historically served the public housing community. The site for the new school was obtained in a swap with the old site of the school. When the old school is demolished, the vacated site will be used for residential units. Recreational amenities including a swimming pool, a ball field and basketball and tennis courts are part of the development and will be shared with the new school.

As part of the revitalization program, the vacant Carnegie Library will be restored and once again used as a library for residents and children at the new school.

The Economic Development Plan

A major feature of the Techwood/Clark Howell revitalization plan is a range of programs designed to improve the life chances of public housing residents through economic empowerment. A Training and Employment Center within the development will provide employment training and career-development services to residents. A planned, on-site Cultural Enrichment Center is expected to offer opportunities for resident-owned businesses.

Community Services Plan

The Community Services Plan is intended to address the needs of both the existing residents of Techwood and the new population that will be attracted to the development. The Plan aims to create a network of interlocking social service delivery systems that support the present and long term needs of residents. While there was traditionally no lack of social service providers at Techwood, the services being provided lacked coordination. An important part of the development process in working with the residents involved doing a needs assessment. This assessment gave the service providers an opportunity to better plan and coordinate services.

A second important component of the Plan is to involve the low-income residents as much as possible in service-related employment. For example, selected low-income seniors will perform community service work for homebound low-income adults and youth. Residents will also be paid a stipend and will be placed among the staff of the various social service providers, e.g. the Boys and Girls Clubs, and the YMCA, who are currently serving the community and will continue to serve the community in the future.

Project Financing

A major component in the Techwood redevelopment is the project financing incorporating a unique mix of public and private resources. What makes this development effort special is a unique model agreement negotiated with HUD that allows the use of public housing operating subsidies for units not operated by the HACA. As spelled out in the Regulatory and Operating Agreement, this subsidy is allowed to "float" for eligible public housing units, i.e., it is not attached to a particular unit. This feature allows the public policy objective of income-mixing to be better achieved by allowing public housing residents to be interspersed with market-rate tenants, as long as income ratios are met.

The plan calls for HACA to relocate tenants currently occupying the site and to prepare the site for development. HACA has successfully relocated approximately 200 families using Section 8 certificates as of the date of this article. Site preparation is well on its way and construction has begun. The City of Atlanta is funding a variety of necessary public improvements to facilitate implementation of the plan.

Having prepared the sites for development, HACA is retaining ownership of the land and leasing it to the development partnership (in which it has an ownership interest)

The financing plan for Techwood involves a complex partnership of public and private funding. The key components are as follows:

1. Equity raised from the sale of Low Income Housing Tax Credits. The tax credit investor in the first phase is Sun America and the equity raised is approximately $3.9 million.

2. An FHA-insured first mortgage from American Capital Resources of approximately $3.9 million at 7.875% for 30 years. This loan will be subsequently purchased by GNMA.

3. A second mortgage of $5.9, million from HACA to the Partnership from HOPE VI funds. This loan is at 6.09%, the applicable Federal rate and with a graduated re payment schedule. By providing these funds as a loan rather than as a grant, HACA is able to recycle funds and the Partnership is able to maximize the benefits of the tax credits. Use of these funds is restricted to construction of units that will be available to public housing residents.

There were some significant issues in setting up the first mortgage financing. Since the land was being leased to the Partnership and not owned outright, the collateral for the loan could not be foreclosed upon and was subject to the restriction to continue operating 40% of the units as public housing eligible units. This added risk was offset by the fact that the amount privately financed was only about 28% of the total project and by the fact that HACA would buy the balance of the first mortgage if it went into default. In addition, HACA receives a portion of the developer fee and a portion of the net operating income. Some of those proceeds are used to set up an operating reserve.

The project received an Enterprise Zone designation and will benefit from an exemption from property taxes on the market-rate and tax-credit units, which will be phased out over time. The public housing eligible units are exempt from property taxes as required. For the first five years, the development is exempt from property tax. Over the next six years, the abatement decreases proportionally, so that by the eleventh year the development is paying full taxes.

Even with all these special financing components, a small gap of $250,000 existed for the first

phase. This gap, however, is being filled by leasing parcels of the development site to Coca-Cola for the Olympics.

In addition to funds necessary to complete development at the Techwood/Clark Howell site, additional funds were needed to replace public housing units not being rebuilt on the site. This replacement of units is achieved in two ways. First, HACA received $19.4 million in development funds from HUD to fund units off site in other developments. Secondly, HACA has also received additional Section 8 certificates that provide an option for tenants who wish to relocate elsewhere.

The total project cost for the Techwood Redevelopment is estimated at approximately $60.7 million. The budget for on-site construction costs is approximately $47.6 million or approximately $53,000 per unit. Financing costs and reserves, developer fees, marketing costs, interest costs and other soft costs total $13.9 million or approximately $14,544 per unit.

The operating expenses average $3,500 per unit, per year. The HACA units, which comprise 40% of the units but 44.4% of the total apartment square footage, will pay 44.4% of the expenses, excluding real estate taxes, or approximately $271 per month, per unit. The rent for the remaining 60% of the units range from $468 to $700 per month for the 20% of the units, which are rented to households earning no more than 60% of the area median income, and $590 to $1,000 for the 40% of the units being rented to the general market, earning above 60% of area median income. The Housing Authority units were funded through HOPE VI grant funds and tax credits.

Resident Participation

A key ingredient in moving the vision of the Village at Techwood forward was the involvement of residents. Without the. commitment of the residents to the planning process and the willingness of HACA and the Integral Partnership to actively seek resident input, it would not have been possible to put this project together.

Getting resident involvement was not an easy task. With the proximity of Techwood to the Olympic site, residents feared they would be displaced. These fears were reinforced when part of Techwood Homes was sold to the Board of Regents for Olympic housing and dormitories.

Not all residents were for a mixed-income development. Along with the mistrust of HUD and HACA, there was substantial division and in-fighting among residents. HACA Executive Director Renee Glover approached the residents directly and began mending fences. According to Glover, it was important to "deal with the issues residents had and get on with the planning."

Through a process of negotiations a Further Assurances Agreement was developed between the residents and their legal representatives and HACA and its legal representatives. This Agreement dealt with issues of concern to the residents: relocation, priorities for return, resident participation in the selection of the developer and property management, and the creation of economic development opportunities as part of the revitalization plan. This Agreement was taken to the Housing Authority Board and ratified as a legally binding enforceable document.

HACA and the Integral Partnership met with the residents' planning committee twice a week and with the larger resident body every six weeks so that issues could be resolved and the net of communication spread as wide as possible. Rules of conduct for the meetings were developed and the schedule of meetings and the agenda items were published. These meetings have continued even after the Agreement was developed to provide a forum for discussion.

Marketing the Development
The success of the Village at Techwood will be determined by the ability of the development to attract middle-income residents. The marketing strategy focuses on the location, the design of the development, and the amenities included on-site.

Site
The Village at Techwood enjoys a prime location. It is immediately adjacent to the Coca-Cola headquarters and Georgia Tech and is one-half mile from downtown, just off a major expressway. Proximity to the university is key to finding a market of younger apartment dwellers. While currently there is little convenience shopping, plans are being developed to bring in a grocery store and other convenience uses on the southern perimeter of the development.

Design
Residential-unit design was drawn from observation of other private apartment developments in the Atlanta area. Units are designed to avoid the "subsidized housing" look and to resemble other high-quality residential development. Each unit will have a brick facade, washer, dryer and air-conditioning.

Techwood's site design also will be transformed. The development will have a street grid pattern again. Narrow intersections, stop signs and listing the number of streets entering or leaving the development are intended to discourage express or nonresident vehicle traffic. Units are arranged to face the street with living rooms, front doors and front porches. Re-establishing the street as the primary civic space and making a clear demarcation of what is public and what is private can achieve a greater sense of community and security. Street lighting will be augmented by site and building lighting.

Amenities On-Site
The development will have a swimming pool, tennis courts, and ample secured play areas for children. Perhaps the most important amenity to attract families will be the new Fowler Elementary School, which is being re-built as K-5 magnet elementary school with a strong math and science focus. The school represents a collaboration between the Atlanta Public Schools, Georgia Institute of Technology, and Georgia State University.

Lessons
From the interviews conducted in the preparation of this case study, several important lessons emerged about how to plan for and carry out mixed-income development. These are summarized as follows:

1. The planned redevelopment of Techwood was described as a neighborhood revitalization program. What is being attempted here goes beyond housing development, with planning for schools and retail facilities as part of the redevelopment. These components are critical in attracting market-rate families and in breaking the isolation of public housing residents.

2. Many governmental and private entities had to sign on to this development to make it work: HUD, the Atlanta Public Schools, the City of Atlanta for investment in infrastructure, the various taxing bodies on tax abatement, etc. Commitments from these entities happened because HACA aggressively marketed the plan and got the commitments needed.

3. In dealing with existing residents, it was important to put everything on the table and deal with issues and fears. HACA and the Integral Partnership committed substantial time to this process and communicated not only with a small working group of residents but with the at-large resident population. This completely turned the situation around and built strong support from residents for the mixed-income concept.

4. Substantial attention is being paid to the design of the site and the units to make them competitive with market-rate renters' other options. While the location of the development is an asset, the developer also recognizes the need to provide high-quality, attractive units with security and amenities such as the new magnet school.

5. HACA and Integral also realized the need for a proactive press and public relations strategy. If Techwood was going to draw market-rate renters, not only the buildings but the image had to change. The press needed to speak less about crime-ridden housing and describe the development differently.

6. Perhaps the key piece that makes this development work and will provide a framework for further developments in Atlanta and elsewhere is the precedent-setting use of public housing operating subsidies. This is the first time those subsidies can be used on units not owned by the local public housing agency.

Harbor Point, Boston, Massachusetts

Background

Harbor Point is a 1,283-unit mixed-income rental development occupying a 51-acre waterfront site on Boston's Inner Harbor. Harbor Point replaced a dangerous, dilapidated 1,504-unit high-rise project called Columbia Point. The new development provides an example of how a partnership forged between a socially conscious developer and public housing residents created, with the support of government, a mixed-income community.

History

Columbia Point was built in 1954 on a waterfront site that was originally a landfill. It consisted of 30 high-rise and mid-rise buildings containing 1,504 units of public housing. Like much of the public housing constructed during this period, the building design required many families to share one entrance and one elevator. Apartments were too far above ground to supervise children at play.

Decline at Columbia Point began in the mid-1960s, when standards of resident screening and property maintenance began to slip. Crime and drug use increased. Ultimately, fire trucks and ambulances would not come into Columbia Point without a police escort. Columbia Point became a symbol of what was wrong with public housing. Gradually, people moved out. By 1979, only 350 units were still occupied. These deteriorating conditions galvanized an active residents organization, the Columbia Point Task Force (CPTF), to negotiate with the Boston Housing Authority (BHA) and other agencies.

In 1979, the Department of Housing and Urban Development (HUD) approved a $10 million grant for rehabilitation of Columbia Point. After $2 million had been spent, the residents realized that the amount approved would have minimal impact. The CPTF then moved to halt the renovation and lobbied the BHA plan a more extensive renovation. The remaining $8 million was placed in escrow until a suitable plan could be developed.

The Task Force made contact with Housing Opportunities Unlimited President David Connelly, who was providing social services for a mixed-income development in Lynn, Massachusetts, owned by Corcoran Mullins Jennison (CMJ). Columbia Point residents visited the Lynn development and were impressed with the mixed-income model, which incorporated resident participation into design and management. Connelly began to work with the residents to involve them in design, management and ownership.

The CPTF began to be a real force in proposing a more innovative approach to the redevelopment of Columbia Point, an approach that built a mixed-income community. The residents group pushed the BHA and other state and city agencies toward an acceptable development plan. In 1982, the residents, BHA, and the Boston Redevelopment Authority (BRA) issued a Request For Proposal (RFP) from developers for a mixed-income development.

Two proposals were received, including one from Corcoran Jennison. When the selection of a developer was not forthcoming, the mayor intervened and appointed a third developer as an arbitrator. The ultimate outcome was that the two teams were merged with Corcoran Jennison, the CPCTF choice, as the lead developer.

A very important waiver was received from HUD that exempted the development from the one-to-one replacement of public housing units. It was argued that the vacant buildings were deteriorated beyond repair and that repairing them and maintaining the existing densities would simply replicate the previous problem. An agreement was negotiated that gave the existing 350 residents the right to return to Harbor Point upon completion.

In 1986 the Harbor Point Apartment Company was formed as an equal partnership between the Columbia Point Community Task Force and the development team to manage the planning and design process and eventually the development. The residents and the developer each had two representatives on a four person governing board. This insured a degree of resident involvement in a host of decisions effecting the development in line with their position as 50% ownership in the general partnership.

Early on this group made an important decision to bring in a private management entity under contract with the Boston Housing Authority even before redevelopment began. The BHA had let management deteriorate to such an extent that it was critical early on in the process to bring in private management to set a standard for the enforcement of basic rules.

Demolition of most of the existing buildings and construction of new buildings began in 1986. Residents who would remain were relocated on-site. The first group of buildings was completed in 1987. Columbia Point residents moved back in phases to maintain an income mix as market rate units also began lease-up. Final construction was completed in 1991.

The Plan

The overall plan to redevelop the Columbia Point site had several important components.

1. Columbia Point would be transformed into a mixed-income housing development. The agreement underpinning the development stated that 70% of the units would in addition, to achieve an even spread of subsidized units throughout the development, no building could have more than 50% of the units occupied by subsidized renters. There would also be no

physical differences between subsidized units and market rate units.
All units needed to be of sufficiently high quality to attract market rate renters. The development does include some five and six bedroom apartments, which tend to be occupied by subsidized families.

2. The plan included an extensive array of social services. The residents and Housing Opportunities Unlimited, a private firm under contract to the ownership to manage resident services, carried out an extensive needs assessment to identify the right mix of services required. They created a matrix of services (e.g. health, education, youth, child care) by age group and then, through requests for proposals, brought in service agencies to deliver those services. The residents group also presented these needs to the developer so adequate space could be set aside for service delivery.

3. The development was planned recognizing the need for amenities to attract market rate residents. The development took full advantage of the waterfront site and included a park along the harbor. Buildings were sited so they would have a waterfront or skyline view.

Development Partnership
The development is owned by Harbor Point Apartments Company Limited Partners, whose general partners are Peninsula Partners Limited Partnership and the Harbor Point Community Task Force Corporation, the organization established by the original residents at Columbia Point. Peninsula Partners, the managing general partner, includes the development firms of Corcoran Jennison, Inc., Keen Development Corporation, and Cruz Harbor Point, Inc.

Development Financing
The development of Harbor Point cost approximately $201 million. This included the hard construction costs, extraordinary site preparation costs, the costs of non-residential buildings and soft costs. Because Columbia Point was on a former land fill, soil conditions were poor and deep pilings were required for building construction. The original financing for the development came from a variety of federal, state, local. and private sources. These included:

1. A first mortgage from the Massachusetts Housing Finance Agency (MHFA) provided through a tax-exempt bond and insured by HUD: **$121 million.**

2. A second mortgage, also from MHFA but uninsured: **$30 million**

3. Federal UDAG hinds made available through HUD and the Boston Redevelopment Authority: **$12 million**

4. Urban Initiatives funds from HUD through the Boston Housing Authority: **$87 million**

5. Chapter 884 funds a special program for physical infrastructure through the States' Executive Office of Community Development: **$3 million**

6. Private limited partnership investors **$50 million**

7. A long-term ground lease to the partnership from the Boston Housing Authority: **$1.00**

The original on-going operating subsidies to the development include the following:

1. Section 8 project-based units: 350 units

2. Chapter 707 funds a State program similar to Section 8: 50 units

3. SHARP funds, another State rental subsidy program: Up to $2.5 million per year for up to 15 years

Restructuring the Development Financing

The original planning for Harbor Point took place when the Massachusetts economy was experiencing a boom. By the time the development was ready for lease-up, the economy was in a severe downturn. Rent-up of the market rate units was slower than expected as a result of the softening of the overall real estate market. Marketing costs increased as a result of the longer rent-up period. Additional security was needed on site and certain other costs were higher than anticipated. As a result of all these factors, operating deficits grew. In addition, several of the financial institutions that had invested in the limited partnership went out of business and defaulted on their equity payment.

A complex financial restructuring was achieved in 1991. A major component in this re-structuring was a re-syndication of tax credits with Chevron Oil that increased the equity raised to approximately $75 million. These proceeds, after paying existing cost overruns and syndication costs, were placed in escrow to cover future operating deficits. In addition, at a later date the original bond was refunded at a lower interest rate, reducing the need for State SHARP subsidies.

As the economy improved and with the re-structuring in place the development began to right itself Currently Harbor Point is operating at 97% occupancy.

Resident Participation

A key component in understanding the significance of Harbor Point is the high degree of resident participation in the planning, design, and management of the development. While there was a strong commitment from early on to improve Columbia Point, an expanded leadership based needed to be built-a base that could deal with the complexities of a development like this.

Housing Opportunities Unlimited (HOU) is playing a key role in this process. HOU is a for-profit company that provides resident services. Early in the process it worked to build trust among the residents and between the developer and the residents. HOU and its director, David Connelly, regularly sat down with residents and worked to identify solid people who were willing to get involved. This effort to build trust cannot be underestimated. The residents felt victimized by the BHA bureaucracy and stigmatized by living where they did. They did not readily assume they would be better off with redevelopment. By building relationships with the residents, Connelly was helpful in getting residents to see how their individual self-interests connected to a bigger picture.
The ownership structure provides an opportunity for resident control beyond an advisory capacity. Those interviewed indicated this has made Harbor Point a success, although it has not always been a smooth ride. Many of the residents in leadership positions have championed strict enforcement of the rules, which they were involved in setting, claiming it was laxity in enforcing rules that hurt Columbia Point in the first place.

The organizing and planning that was part of putting the development together continues today. HOU is contracted by the ownership to provide resident services. Along with the governing board

there is an eleven-member board of residents and a system of building captains. The building captains who are resident keep an eye on the common area maintenance and security and report problems to management. HOU also works on the coordination of social services, being an important intermediary between the agencies providing services and the residents.

Marketing

Despite its waterfront location and its stunning view of downtown Boston, the developer of Harbor Point recognized the challenge in bringing market rate residents to the site. The previous public housing development had an extremely negative image that needed to be overcome.

The marketing strategy focused on capitalizing on the waterfront location and proximity to downtown Boston (about 15 minutes on rapid transit), the design of the site and the units, and the provision of certain amenities.

One goal for Harbor Point was to "de-institutionalize" the site, i.e. to make it look like a normal, residential neighborhood. This is achieved by having a variety of styled buildings ranging from high-rises, remaining from the original development that was radically altered, to small mid-rise apartment buildings, to two and three story townhouses. The street grid was altered so that all streets could view the water. The central focus is a broad boulevard that leads from the entrance to the development down to the waterfront park. Five to seven story apartment buildings line this boulevard. These buildings, while fairly high, are single-loaded corridor buildings and have spacious hallways with windows, providing natural light and a sense of openness.

Harbor Point offers a swimming pool, tennis courts, a fitness center and free parking, amenities not usually found in downtown Boston apartments. Units are painted whenever a renter vacates so the new resident has the feeling of moving into a completely new place. Units have modern facilities and are air-conditioned. The development also has its own police force, with police powers delegated to it by the City of Boston as a way of providing additional security.

Currently, the development is at 97% occupancy. Harbor Point is advertised in newspapers and apartment guides. Twenty percent of the market-rate renters come from referrals from existing residents, testament to the fact that a fairly high level of satisfaction with the development currently exists.

Resident Demographics

Harbor Point draws from a wide market for renters. Many are students and staff from the University of Massachusetts at Boston, located directly adjacent to the development, or are office workers who work in downtown Boston.

The following information from the annual demographic survey gives an idea of who resides at Harbor Point:

1.	Total market residents	1611	households	811
	Minority	899	households	407
	Total subsidized residents	1272	households	399
	Minority	1101	households	333
	Total residents	2883	households	1210
	Minority	2000	households	740
	Total elderly households	164		

2. Median market individual income $27,000
Median market household income $41,000

Median subsidized individual income $7,000
Median subsidized household income $10,000

3. Total market children 81 | Total subsidized resident children 608
Minority 62 | Minority 524

Total children 689
Total minority children 586

As these figures indicate, there are few non-minority households with children occupying Harbor Point. There are, however, a substantial number of minority children occupying market-rate units. While noise from children playing or youth congregating is occasionally an issue for some market-rate renters, management staff reports that many market-rate residents enjoy the sense of community they find at Harbor Point.

Lessons

1. Harbor Point shows that resident participation and ownership are important in the planning and on-going management of mixed-income developments. A second lesson is that if such participation is to occur, some investment needs to be made in enhancing resident leadership skills and in building trust. The role of David Connelly and HOU during the planning of the development and in providing resident services after occupancy was critical in insuring a successful development.

2. Harbor Point was successful because the development was completed all at once, all in one piece. Because of the large size of the project and its substantial cost the there was pressure to carry out the project in phases. The developer and the residents pushed to do the project in one piece. Unanticipated changes in public policy, in subsidies, and the economic climate are factors that could have scuttled the mixed-income goals for Harbor Point, leaving only public-housing residents there by virtue of their guarantee of relocated housing.

3. Marketing was critical. Often former public housing sites carry a stigma that must be overcome to attract market rate renters. Harbor Point was fortunate to have a superior waterfront location, but there was a need to create amenities beyond that. Good design, free parking and on-site recreation were amenities that were coupled with a professional marketing approach.

4. Operating costs for mixed-income developments may be higher. Enhanced security, resident training, resident services and more extensive marketing activities are all necessary parts of Harbor Point's operating budget.

5. The development suffered from poor press relations. Communicating with reporters and other media contacts should be defined as a separate, full-time job. Financing and regulatory requirements and resident issues are complex and need to be explained to reporters over time, and followed as circumstances change. Harbor Point suffered from bad press throughout the development and seemed to lack a productive strategy of media relations.

Montgomery County, Maryland

Background

Using inclusionary zoning ordinances dating to 1974, Montgomery County, Maryland, has synthesized affordable-housing opportunities with suburban growth.

As numbers bear out, county residents are benefiting from inclusionary zoning at its best. In those 20 years, the county has gained about 10,000 housing units because of inclusionary zoning. As a mark of the careful thinking behind that county law, those units are scattered across neighborhoods with both high- and low-cost housing. In another indicator of commitment to neighborhood quality of life, the housing authority pays homeowners association fees in 250 different neighborhoods.

Montgomery County has two different approaches to mixed-income housing. One is innovative inclusionary zoning in new subdivisions, where units are built by the private sector. The other approach uses units produced by the county to bring mixed income housing and residents to neighborhoods.

The housing authority, which previously produced only federally subsidized public housing units, has evolved into an entity that develops "income integrated housing" without federal support. Because of its responsible bond-issuing and mortgage-lending activities, the authority has become a financial resource for the county's broader housing-development community. The housing authority:

- Owns or manages 4,000 units; 0 Administers a rental-assistance program in excess of 4,000 units;
- Has financed more than 9,000 rental units in the county;
- Since its inception in 1979, has provided mortgages for 8,304 lower-income homebuyers.

History

Montgomery County, Md., an affluent, politically progressive suburban county, bordering Washington, D.C., is home to about 810,000 people. Median household income for 1993 was $59,083. Also in 1993, median single-family home sales price was $187,000, underscoring the housing affordability gap that has persisted in the county and that gave rise to the county's mixed-income development policies. And, though the county has a reputation for socioeconomic homogeneity, its non-white and immigrant populations have increased sharply in the last 15 years, giving strength to the demand for affordable housing.

As early as 1974, Montgomery County emerged from protracted citizen-led opposition to a high-profile mixed-income development. Opponents had filed legal, action against HUD, generating reaction not only from the HUD secretary but also from then President Nixon, who said his administration would "not seek to impose economically integrated projects upon an existing local jurisdiction." In Montgomery County, the controversy served to stimulate further discussion of affordable-housing needs, culminating in the state legislature broadening the mandate of the housing authority, renaming it the Housing Opportunities Commission (HOC):

- HOC became a housing finance agency, with the power to issue tax-exempt bonds used to

provide below-market rate mortgages for home ownership and for rental housing, for its own programs and for private-sector builders and developers. The income levels of households that HOC could serve were broadened and could include market-rent paying households in mixed-income communities.

Because HOC's development proposals often met strong community opposition at a time, in the mid-1980s, when federal funding was dwindling, the model of partially subsidized, partially market-rate housing appealed to HOC for three reasons: The market-rate units offered a higher income stream to support development costs for which subsidies were not adequate. The integration of very low- and low-income residents in a mixed-income community avoided external stigmatization of low-income communities as well as deterioration and other internal problems within those communities. Developers' needs to appeal to market-rate paying residents helped assure surrounding communities of high standards in appearance and management.

Components

Through the 1960s, Montgomery County experienced growth in population, in resident income levels, in housing prices. Activist organizations, many of them led by women who later were elected or appointed to high-profile county jobs, asserted that the failure to provide affordable housing for minority families was exclusionary and amounted to discrimination. Advocates such as the League of Women Voters lobbied for laws to require developers to build affordable housing. The Moderately Priced Dwelling Unit law as it stands today arose from that early organizing.

Moderately Priced Dwelling Unit (MPDU) Program.

By requiring affordable units in most sizable new subdivisions, the MPDU program is a major vehicle for dispersing affordable housing throughout the county. The MPDU ordinance requires that residential development of 50 or more units provide 12.5 percent to 15 percent of the units at prices affordable to moderate-income households. Developments that include more than the minimum 12.5 percent of MPDUs are eligible for a density bonus of up to 22 percent.

HOC has the right of first refusal to purchase one-third to 40% of MPDUs. Other qualified government and nonprofit agencies have the right of first refusal to purchase up to a total of 40% of MPDUs. HOC has purchased units in programs of:

- Public Housing Acquisition Without Rehab (AWOR);
- Section 8;
- Low Income Housing Tax Credit partnerships in which HOC acts as the general partner;
- Maryland State Partnership Rental Housing Program, providing for capital costs in much the same way as federal public housing.

The MPDU program markets to renters and first-time homebuyers with 1995 incomes of $16,000 to $39,900 for larger families. Units that HOC purchases are for low- or very low-income households. Most are in subdivisions; some are on scattered sites.

HOC provides below market-rate mortgage financing for qualified MPDU purchasers. Families living in assisted housing can buy a MPDU with favorable financing and, occasionally, closing-cost assistance from HOC. The commission has an option to buy back individual homes if and when

families sell. The county gets a share of proceeds from the first sale after a control period ends, less the cost of the unit including improvements, inflation and sales commission.

The county Department of Housing and Community Development controls sales prices for ten years; rents are controlled for 20 years.

Financing

In 1979, HOC moved into the mortgage finance business, using its bond-issuing powers to finance private multi-family developments and single-family home purchases. Tax-exempt bonds HOC issues cover most of the capital cost of new development and acquisition. Bonds are repaid through tents and mortgage payments.

HOC has financed 35 multi-family, nonprofit and privately owned rental developments, using $457.1 million from tax-exempt mortgage revenue bonds.

In the past 15 years, more than 8,000 moderate-income first-time homebuyers have used $502.6 million in HOC mortgage funds, lent at below-market rates, and provided through HOC offerings of tax-exempt mortgage revenue bonds.

Montgomery County has a growing real-estate market with stable values and a generally steady or insufficient amount of product. Affordable-housing lending in this market is relatively low-risk, compared with other investments. HOC has required that multi-family bond issuances for privately owned housing be insured at a level to garner an A or better rating in public municipal markets.

Sites

Timberlawn Crescent: In adding to the number of mixed-income units that the private sector has produced through the inclusionary zoning MPDU law, HOC has done new mixed income developments. Timberlawn Crescent was one of HOC's first developments of a market-oriented, income-integrated community.

The MPDU law requires the developer to produce affordable units, or transfer developable land capable of accumulating an equivalent number of units. This requirement was brought to bear in the case of Timberlawn Crescent.

This mixed-income community of 107 town houses came to be through a bankruptcy: A developer had agreed, under the MPDU law, to build 85 government assisted units in a 576-unit subdivision or to turn over to HOC 4.3 acres of land. When the developer, under bankruptcy, failed to build the Section 8 units, the county sued. HOC then acquired the 4.3 acres of land, which was a desirable location in affluent North Bethesda. The property's market value was estimated at $20,000 per unit; the cost to HOC was zero.

Financing

- Total development costs for Timberlawn Crescent were $5.8 million.
- The county issued $1 million in mini-bonds.
- HOC issued $5.46 million of tax-exempt essential function bonds at a 7.05% rate.
- HOC contributed $500,000.

- The Maryland Housing Fund, a FHA-type program backed by state reserves and operated by the state to insure multifamily and single-family loans, provided insurance, resulting in an AA-rated bond issue.

- The Maryland Rental Housing Production Program provided $80,000 per year for 12 years to lower rents on 30% of the units.

- Timberlawn Crescent was exempted from county property taxes.

Timberlawn Crescent was envisioned as a project that would pay for itself, with market-rate rents subsidizing below-market units, and with no federal funding. HOC commissioned a marketing study, which recommended a tenant mix of 30% renting below market. HOC disagreed, asserting that the market was strong enough to absorb a 50150 mix of market-rate and below market-rate renters.

Timberlawn Crescent rented up successfully and was expanded onto adjacent land. Economic integration there has worked extremely well and spans a wide range of incomes. The lowest rent units are leased using HOC's public-housing waiting list. Fifteen percent of the units are for households with incomes below 30% of the area median income.
Eight years after completion, Timberlawn Crescent had 99 percent occupancy.

A sampling of other HOC mixed-income developments includes:

Alexander House: a new, 311-unit high-rise at a location near downtown Silver Spring, a public transportation hub and stores. Completed in 1992. Seventy-eight percent of the units rent for below-market rates. Thirty-eight percent of the units are available to applicants earning less than 80 percent of area median income; 40% to those earning less than 60% of area median income. Design features include a public vest-pocket park that is protected from traffic and original, commissioned sculptures at street level.

Financing

- $1.5 million from the Maryland Housing Production Program;
- $2 million from the Montgomery County Housing Initiatives Fund;
- $2 million from HOC Opportunity Housing Reserve Fund;
- Tax-exempt mortgage revenue bonds.

Although the county was experiencing tough economic times during the Alexander House rent-up, it is now at 95% occupancy.

Strathmore Court at White Flint: central to the subway and to a wide range of retail stores is newly built on a 4.6-acre site valued at $4 million. A developer donated the site in exchange for the ability to defer construction of other residential units on the site of commercial office space. Of the 202 units, 25% are reserved for households below 50% of the area median income; 75% are market-rate units. Amenities include a swimming pool, exercise facility, party room, play area and underground.

Financing

- $22 million in mortgage-revenue bonds;

- Prospective tax-credit partnership;
- HOC Opportunity Housing Reserve Fund.

Sunrise at Kensington Park: a 165-unit retirement community with two buildings for assisted living and one for independent living. Thirty percent of the residents have incomes averaging 20 percent of area median income. Twenty-five percent of the assisted-living units serve former public-housing residents who needed support and services not available in their prior public-housing facilities. In creating this very low income tier, HOC has recognized the many needs of elderly people who are incapable of independent living and therefore not candidates for public housing.

Financing
County land contribution at minimal cost;
- $1 million state of Maryland loan; $800,000 County contribution;
- $800,000 HOC contribution;
- $19 million in tax-exempt mortgage-revenue bonds

Sunrise was developed through a partnership between HOC and the Sunrise Corp., a leading national provider of senior living communities.

Management
HOC's management division serves about 3,000 low-income units. HOC also has hired private contractors to manage mixed-income developments, as at Timberlawn Crescent.

Tenant participation in management or development, when it has occurred, has not been an obstacle, in HOC experience. By the nature of its role as a private developer, HOC has not been called upon to deliberate tenant issues.

Special Features
HOC has operated on the philosophy that housing and services should be provided to low-income residents to enable them to become self-sustaining and independent. To that end, the HOC resident services division operates:

- Nutrition programs
- Seniors' assistance and activities such as vegetable gardening
- Youth enrichment programs
- Home-ownership programs for disabled people
- Transitional housing program
- A used-furniture program that furnished units for formerly homeless people
- Family centers offering day care and activities such as training for day-care licensing or the Family Self-Sufficiency Program to help families increase their incomes

The resident services division has a 1996 budget of $2.6 million.

Lessons
1. Numerically, the term "mixed-income" defies definition. When deciding what percentages of lower-income residents and market-rate residents will make a stable mixed-income community, the neighborhood is the determining factor. How much mix can a neighborhood absorb? How are marketing efforts proceeding? Is racial tension present? When considering expansion of a development, HOC staff ask resident managers about whether residents are being assimilated and

other issues.

2. Placement of lower-income residents to make a mixed-income community does not put downward pressure on property values. In Montgomery County's most successful mixed-income developments, economic integration was considered a marketing plus and was even a conscious choice for some residents. A study of Montgomery County appreciation rates documented that the existence of MPDUs in a community, on average, did not slow home-appreciation rates when compared with communities without MPDUs.

3. The MPDU law has set standards for provision of affordable housing in the county as well as in other jurisdictions that have watched Montgomery County's success.

- The MPDU law allows subsidized housing to be placed in communities without an outcry. Significantly, the homes are scattered sites, built and occupied at the same time as new market-rate housing.
- The MPDU law operates best in a healthy housing market, because it depends on construction activity. Infill units and residential redevelopment also fall under MPDU requirements.

4. The MPDU program is highly visible: Careful unit selection for MPDU residents and attention to maintenance and resident services help to ensure an acceptable level of community support.

- Good maintenance is essential.
- Response to community concerns is important.
- Management staff should stay in close contact with resident associations.
- Management and resident-services staff should respond to complaints in a timely manner.
- Public-affairs or community-relations staff people should respond to inquiries; provide information; clarify; and mediate when issues arise with the public or media.

5. Mixed-income development has been a success for Montgomery County because HOC became a provider of financing, through access to the municipal bond market.

- Taking on finance responsibilities made HOC a more versatile agency.
- Earnings from financing fees and loan-management charges gave HOC more financial independence and provided revenue for supporting other development.
- HOC is an important financial resource for the Montgomery County housing development community. Many moderate-income homebuyers purchase their first homes with HOC financing.
- A good reputation built over years' time is crucial: Wall Street likes proven players. For instance, Moody's Investor Service cited HOC's "overall track record and strong management skills" in assigning HOC a general obligation rating of A, in conjunction

with participation in a HUD risk-sharing program for insured multifamily loans.

6. HOC's experience has, on occasion, been politically difficult. At the same time, the county has, fundamentally, a strong core of support and understanding of the need for safe, affordable housing. Assimilation of lower-income families in middle-class communities is a difficult public-policy undertaking. A good part of the credit for the county's housing successes, observers say, lies in the "home-grown nature of solutions attempted and the positive climate of political support."

Conclusion

While these case studies relate to very different situations in terms of market, scale and resources, common threads run through them and serve as lessons. One commonality among the three is the importance of government-agency activism and coordination in making various developments a success. While cooperation may at times have been hard to achieve, particularly with the tremendous number of moving parts in certain projects, the fact that projects actually happened is testimony to governmental effectiveness.
In Boston and Atlanta, the importance of building trust with residents and involving them in planning, where possible, is a common thread. Montgomery County has been a leader in merging the practical and necessary with attractive design and amenities. High-quality construction has been key in gaining neighborhood acceptance of developments.

Resident services are an essential part of making a development work for residents, especially those residents who have lower incomes. Just having a nice place to live does not create a safe haven for breaking stereotypes or for building bridges that is what we now call mixed-income communities.

Appendix

Creating Mixed Income Neighborhoods: A Challenge to Chicago's Leadership

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