

## **LOCAL INITIATIVES IN AFFORDABLE HOUSING: THE EXAMPLE OF ROCHESTER, NEW YORK'S HOME EXPO PROGRAM**

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**ABSTRACT:** *Federal housing programs have experienced funding shortfalls in recent decades as budgets have been trimmed. More responsibility for the provision of affordable housing has been given to state and local governments, giving rise to a number of innovative programs by urban governments. This paper examines one such program designed to provide home-ownership opportunities to low and moderate-income residents of Rochester, New York. The program involves subsidizing the cost of new construction on abandoned lots found in low-income neighborhoods. Analysis indicates that subsidizing as much as 30% of the cost of new housing on city-owned lots is worthwhile. The increase in property taxes ultimately provides a "return" on the investment, neighborhoods gain stability thereby limiting further decline, and a disadvantaged population sees increased opportunity for home ownership. However, given limited resources, local governments can meet only a fraction the housing needs of the poor. Increased Federal involvement is recommended.*

### **INTRODUCTION**

Throughout much of the 1980s federal housing programs fell victim to budget cuts by both the Reagan and Bush administrations. During this period U.S. housing policy largely consisted of decreases in direct housing assistance, reductions in available tax incentives designed to increase the supply of housing, and cuts in assistance for the rehabilitation of substandard dwellings (Schwartz et al., 1988).

Further, the federal government began to give more responsibility for assisted housing programs to state and municipal governments. With these shifts in policy, non-federal involvement in affordable housing programs expanded considerably and, as early as the mid-1980s, researchers noted that the provision of low- and moderate-income housing was increasingly being viewed as a state and local responsibility. However, it was also found that "all

state and local housing activity represents only a small fraction...of federal programs that this activity is trying to replace" and that most non-federal programs are "too limited ...to reverse the fortunes of older, deteriorating neighborhoods" (Stegman and Holden, 1987).

Despite these problems, the changes in federal policy have spawned a number of innovative programs at the state and local levels. They include mixed-income programs wherein portions of housing developments are reserved for low- and moderate-income residents (see, for example, King, 1990; Loustau, 1993). In addition, zoning is being used both to insure the construction of moderately priced homes through inclusionary zoning techniques (Newman, 1993), to preserve affordable areas through special district zoning (Gallagher, 1994), and to encourage private-sector funding through density bonuses (Rubin et al., 1990). Another means of obtaining private sector financing for affordable

housing is through development exactions (Lewis, 1991; Denbo, 1994).

In other instances local approaches and involvement are more complex and costly. For example, some municipalities become involved in all phases of the process, as is the case with Lansing, Michigan. Under Lansing's program public monies are used not only to rehabilitate existing structures but to also provide financing for low-income buyers (Yalamanchi, 1993). Similarly, the city of Aspen, Colorado is directly involved in the construction of new affordable-housing units with construction financing coming from real estate transfer taxes, sales taxes, and bonds (Lewis, 1991).

Rochester, New York is another community that has undertaken steps to increase affordable housing opportunities. Rochester's program, known as "Home Expo," is designed to provide home ownership opportunities for low- and moderate-income groups through an annual exposition of new homes constructed on abandoned lots that have become the property of the city. The public is invited to view the models and interested individuals can then purchase one of the structures built for the exposition or arrange to have a particular model built on an abandoned lot elsewhere in the city.

While programs such as these have been established by local governments in numerous cities throughout the U.S., in most instances the results have not been analyzed to determine the effectiveness of policies or the "return" on public resources invested in these efforts. For example, Rochester's Home Expo is viewed as a success by city officials who see the program as one that contributes to the revitalization of inner-city neighborhoods and to an increase in the local tax base. However, no detailed review of the program has been undertaken. The present essay is intended to provide some insight into the economic impact of such programs through a comparison of public costs and revenues of Rochester's Home Expo as measured by the subsidies granted vis-à-vis increases in the city's tax base. In addition, procedures and policies contributing to the program's viability are discussed. The period considered is from the program's inception in 1985 through 1995. Data on subsidies were made available by Rochester's Department of Community Development. Information on property tax income was obtained from the City Assessor's Office.

## ROCHESTER'S HOME EXPO PROGRAM

During the late 1970s and early 1980s Rochester dealt with the problem of housing abandonment by promoting the rehabilitation of housing stock and implementing an urban homesteading program. However, the city also adopted a demolition program through which more than 1500 dilapidated units were razed.

By the mid-1980s the abandonment problem was well under control in the city. Most of the abandoned units judged structurally sound had been purchased by urban homesteaders for very small sums. In return, these buyers were required to rehabilitate the houses. Those units considered to be beyond repair had been torn down by the city. However, this brought about a new problem: hundreds of vacant lots in poor neighborhoods. The lots were small (typically about 4000 square feet); they were costly to maintain; they generated no tax revenue; the city bore legal responsibility for them; and they contributed to negative images of neighborhoods.

To deal with the problem Rochester created "Home Expo," a program designed to promote new house construction on the lots left vacant through the city's demolition of housing units. The program brings together local developers and moderate-income individuals interested in purchasing a home. As of 1995 income-eligible home buyers could receive grants up to \$6,000 for down payments and closing costs, although in more recent years this has been changed to a \$6,000 interest-free loan. Buyers can also receive grants that can reduce the price of a house built on a city-owned lot by as much as \$22,500. If a buyer lives in the house for ten years the subsidy does not have to be repaid. However, if the buyer sells or rents the house during the first five years all of the subsidy must be repaid. If the house is sold or rented during years six to ten the subsidy amount that must be repaid is pro-rated.

The city also provides prospective buyers with advice about financing; it encourages lenders to make loans available to home buyers; and it provides incentives to participating developers. Developers' incentives include such things as low-cost construction loans and holding the property in the

city's name throughout the construction period, thereby eliminating the need for the builder to pay property taxes.

Potential buyers obtain information about Home Expo and other housing initiatives through a city office called "The Home Store." The Home Store provides information about housing services and programs. It provides targeted outreach and marketing, program intake, pre-purchase counseling, and follow-up after purchasers take possession of Home Expo houses. The Home Store also maintains listings of available vacant lots and properties for interested individuals and gives information to developers about zoning and design restrictions.

The Home Store's intake process includes counseling, application processing, determination of a potential buyer's financial qualifications, and tracking the process through to the approval or denial of a mortgage. Counseling includes both individual and group training on the responsibilities of home ownership and other aspects of the purchasing process in order to make individuals "ready to buy" a Home Expo unit. Post-occupancy services include

training in home maintenance and advice about neighborhood participation/involvement.

As many as nine developers have participated in the program in any given year (Table 1). Any developer wishing to build for Home Expo must obtain the approval of a screening committee that considers such factors as the cost of the developer's proposed housing design(s), the developer's financial situation, his or her construction experience with moderately-priced housing, and the proposed construction schedule. In addition, the designs are evaluated. A key consideration in the approval process is the degree to which the proposed models blend in with the existing housing stock. Approved designs are typically small, ranging in size from about 1400 to 1500 square feet, with detached garages placed toward the rear of the lot. The houses generally have basements that are raised a few feet above ground level, and they usually include front porches. Selected models from the 1995 Home Expo year are depicted in Figure 1. The models shown include: "The Park," a 2,174 square foot two-family house for \$76,000; "The Messina," a 1,210 square

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Table 1

Home Expo Construction by Program Year

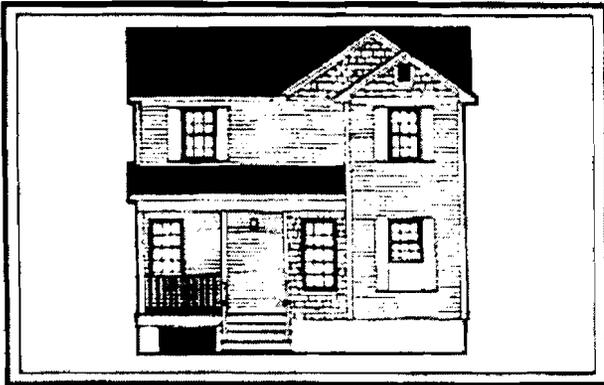
<u>Year</u>	<u>Number of Houses</u>	<u>Participating Developers</u>
1985	23	6
1986	21	9
1987	33	7
1988	25	5
1989	25	5
1990	25	7
1992	15	3
1994	51	6
1995	67	9

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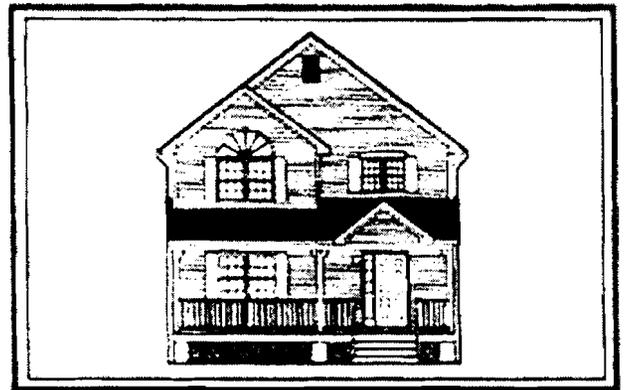
**A. The Park**



**B. The Messina**



**C. The Union**



**D. The Wangman**

FIGURE 1

Selected Home Expo Styles

Table 2

Home Expo Subsidies and Buyer Costs, 1985-1995

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<u>Year</u>	<u>Subsidies</u>	<u>Buyer Costs</u>	<u>Total Costs</u>	<u>Average Subsidy</u>
1985	\$110,100	\$1,119,941	\$1,230,041	\$4,787
1986	\$190,245	\$1,108,500	\$1,298,745	\$9,059
1987	\$522,163	\$1,624,587	\$2,146,750	\$15,823
1988	\$322,522	\$1,407,290	\$1,729,812	\$12,901
1989	\$555,500	\$1,181,982	\$1,737,482	\$22,220
1990	\$524,358	\$1,272,697	\$1,979,055	\$20,974
1992	\$337,500	\$879,574	\$1,217,074	\$22,500
1994	\$1,080,000	\$2,708,687	\$3,788,687	\$21,176
1995	\$520,361	\$1,449,497	\$1,969,858	\$7,767
TOTAL	\$4,162,749	\$12,752,755	\$16,915,504	

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foot house selling for \$56,400; "The Union," a 1,464 square foot unit costing \$57,400; and "The Wangman," a house with 1,380 square feet and a selling price of \$56,400.

In 1995 fifteen single-family models were available for viewing and purchase at base prices ranging from \$49,400 to \$65,400. The house sizes ranged from nearly 1100 square feet to 1500 square feet. One additional model, a two-family unit, was also available at a cost of \$76,000. The prices advertised by the city are based on the assumption that the buyer is eligible for the entire \$22,500 subsidy.

Each year a seven- to ten-day exposition is held during which models are open for public viewing. As indicated, individuals may then purchase one of the existing models or request that a particular model be built elsewhere on another city-owned lot. Generally, the exposition models are built in areas with a large concentration of vacant lots.

This allows the models for any given year to be located near one another, making it easier for the public who can view all the models by walking along one or two blocks. From 1985 to 1995 nine Home Expos were held (none were held in 1991 and 1993) and 285 houses were constructed (Table 1).

Home Expo has been funded through a variety of sources. These include the New York State Affordable Housing Corporation, the federal government's Community Development Block Grant Program, Rochester's City Development Fund, and city bonds. Funds from these sources are used to subsidize the purchase price and closing costs for income-eligible buyers. In addition, city loans are made available to developers. Buyers' mortgages are provided by participating banks.

From 1985 to 1995 nearly \$17,000,000 was spent on Home Expo housing units. Of this amount, subsidies accounted for approximately \$4 million or about 25 % of the total. The remaining 75% (nearly

Table 3

Home Expo Cumulative City Property Taxes, by Program Year, to 1995

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<u>Year</u>	<u>Cumulative City Taxes</u>	<u>Average Subsidy</u>	<u>Approximate Refund Time (years)</u>
1985	\$224,400	\$4,787	5
1986	\$197,800	\$9,059	10
1987	\$249,000	\$15,823	15
1988	\$167,900	\$12,900	13
1989	\$143,700	\$22,220	20
1990	\$110,300	\$20,974	20
1992	\$34,100	\$22,500	20
1994	\$43,300	\$21,176	20
Total	\$1,170,500	\$7,767	

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\$13 million) were costs borne by home buyers (Table 2).

The average subsidy varies considerably from year to year. In large part it is a function of how much money is available from the various federal, state, and local sources of funding. However, it goes beyond simply the amount of money allocated for a given year. It is affected by such factors as average house costs which are determined by the models that builders propose for any particular year and the average income of the individual home buyers for that year.

For example, in 1985 the subsidy per house averaged \$4,787. In 1989 this figure increased to \$22,220 and it remained at approximately this level for the following three Home Expo years before falling to slightly less than \$8,000 in 1995. For the entire study period the average annual subsidy was \$14,606 (Table 2).

### **ASSESSMENTS AND TAX BASE CHANGES**

One objective of the Home Expo program is to increase the city's tax base. Vacant lots not only produce no income but they cost the city money through maintenance and, because they tend to have a negative impact on a neighborhood's housing values, they may actually decrease the local tax base.

The program has been successful as an income generator. The cumulative taxes paid on all Home Expo dwellings exceeded \$1,000,000 by 1995 (Table 3). The tax data indicate that the subsidies for Home Expo have been monies well spent. For example, Home Expo houses built in 1985 and 1986 had generated \$422,200 in city property taxes by 1995. However, their subsidies were only \$300,345. Thus, in about a decade these houses generated tax dollars that far exceeded the subsidy dollars that were originally put into them.

Table 4

Home Expo Purchase Prices and Assessed Values

<u>Year</u>	<u>Average Purchase Price</u>	<u>Average Assessed Value 1990</u>	<u>Average Assessed Value 1996</u>
1985	\$48,693	\$46,334	\$50,217
1986	\$51,488	\$52,786	\$51,767
1987	\$49,300	\$52,287	\$47,594
1988	\$56,291	\$50,940	\$48,056
1989	\$47,279	\$53,700	\$51,580
1990	\$50,907	-	\$46,600
1992	\$56,638	-	\$53,527
1994	\$57,632	-	\$56,982

The time needed to “repay” the subsidies in the form of tax dollars will, of course, vary from year to year depending on the average subsidy provided for that year. In some cases the total subsidized cost may not be recouped for as long as 20 years (Table 3). However, it should also be noted that additional property tax dollars go to the county and the city enjoys savings on lot maintenance. Thus, the “repayment period” is actually somewhat shorter than is shown.

While the city has benefited from property taxes, the values of Home Expo houses have tended to decline over time. For most Home Expo years the original purchase price of housing units was higher than their 1996 assessed values (Table 4). For all years considered, the average purchase price was approximately \$2,000 higher than the 1996 assessments. However, since nearly all of the homes are subsidized, most individual homeowners lose nothing with moderately declining assessments. For example, the average assessed value for houses built between 1985 and 1989 decreased to a much greater degree from 1990 to 1995 than it did between the year of construction and 1989 (Table 4). In some instances there appears to be a slight increase in value

for a few years immediately after construction followed by a period of declining values. The data indicate that declining values tend to be more pronounced five to ten years after construction than within the first few years of the units being built. Declining assessments over time and assessments below purchase prices suggest that new construction in lower-income neighborhoods does not create a situation whereby land values will tend to increase in the medium to long term. At best, such construction appears to slow declining property values.

A similar pattern is seen in the marketplace. During the period of study 12 Home Expo houses were resold. Of these, three sold for more than their cost, with profits ranging from \$1,000 to approximately \$6,000. The others were resold at losses that ranged from \$1,500 to nearly \$18,000. All resold houses sold at an average loss of approximately \$5,000.

In addition to 12 units being resold by 1995, another 12 went through foreclosure proceedings brought about by lenders. Of these, six had been reoccupied by 1995; the other six remained vacant. Three of these units empty in 1995 were vacated in 1993 and three were vacated in 1994. The figures for

foreclosures are low given that 13% of Home Expo residents reported incomes of less than 60% of the MSA median and another 64% had incomes between 60% and 80% of the MSA median. The low number of resales and the low number of foreclosures points toward a fairly high degree of stability among Home Expo buyers. The low resale rate undoubtedly is related to the requirement that some or all of the subsidy must be repaid if the house is sold or otherwise not occupied by the buyer during the first ten years. However, the overall degree of stability can also be attributed to the screening and counseling that city personnel provide through the program.

## **SUMMARY AND CONCLUSION**

The efforts of The Home Store are obviously factors in the low foreclosure and resale rates associated with Home Expo houses. One primary benefit of the program is that it offers home ownership opportunities to a group that otherwise often has difficulty participating in the housing market. About 75% of participants have incomes less than 80% of the MSA median, 54% are female heads of households, 80% of the participants are African American and another 8% are Hispanic.

In addition, the construction of new housing enhances poorer, older neighborhoods. Further, the fact that the houses are owner-occupied lends stability to Home Expo areas and new construction in these neighborhoods often leads to improvements in existing housing stock on the part of nearby neighbors. Despite this, it is not surprising that Expo housing values tend to decline. Most Home Expo lots are derived from abandoned houses that were razed in poor, minority neighborhoods where market forces often serve to create declining or stagnating values for all houses. However, the issue of declining values is secondary to neighborhood improvement, increased stability, and home ownership for a disadvantaged population.

In housing fewer than 300 families over an eleven-year period, the impact of Home Expo is limited given Rochester's population of approximately 230,000 people. According to the 1990 Census, over half of the city's residents are renters, nearly 60% of households are classified as

low or moderate income, and 25% live below the federal poverty level. Census figures also indicate that minority homeowners are underrepresented in the city (78% of all owner-occupants are white). Blacks make up about 32% of the city's population but inhabit about 19% of owner-occupied units. Hispanics comprise approximately 9% of the city's population but own less than 3% of owner-occupied homes. Fifty percent of Blacks and 60% of Hispanics are classified as low-income. Another 18% of Blacks and 19% of Hispanics are at the moderate-income level. Further, nearly 3,000 households are on waiting lists for subsidized housing. Homeownership opportunities for the city's minorities are clearly limited.

In the face of such daunting statistics programs such as Home Expo have limited impact on the affordable housing dilemma experienced by most U.S. cities. However, the program can be viewed as a success. It provides ownership opportunities for individuals who would otherwise have little hope of owning a home, it enhances neighborhoods, it brings stability to neighborhoods, it increases the city's tax base, and it provides employment opportunities for those in the construction trades. The resulting social and economic advantages make a strong case for the use of subsidies to encourage the construction of inner-city, affordable housing.

In and of themselves local programs such as Home Expo cannot be viewed as a solution to the housing crisis faced by the urban poor. However, they can serve as important components of a broader housing policy which, by nature of the problem's magnitude, must include greater resources from the federal and state levels. Also, such programs can serve as models for the sorts of approaches that might be adopted if more monies were made available. Given the failures associated with many federal housing programs, the federal government would do well to respond to successful local initiatives with increased financial support to allow the innovating community to expand housing opportunities and to encourage other communities to adopt similar programs.

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