

# Making a Case for Mixed-Use, Mixed-Income Communities to Address America's Affordable Housing Needs

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The purpose of this document is to provide insight on the 10-year process of revitalizing 13 communities in Atlanta; the impact this revitalization has had on the affected families; and the benefits of the revitalization enjoyed by the city. In Atlanta we have learned very compelling lessons—lessons which provide an answer to the vexing question:

*“How do we save large urban centers and, more importantly, honor the covenant our government has with its citizens?”*

In Atlanta, we have been engaged in an across-the-board physical and social transformation. We have:

1. Razed more than 5,000 dilapidated apartments throughout the city and in their place, with our private sector development partners, developed 13 mixed-use and mixed-income communities. As of today, AHA is serving more families than in 1994 and in substantially better living conditions; and
2. In partnership with our private sector partners, AHA has leveraged approximately \$250 million of federal grants to approximately \$3 billion of new investment and development in Atlanta, with a combination of private investment, local government investment and related economic activity.

Still, many Atlanta communities and families are suffering from the terrible effects of concentrated poverty. These communities must be revitalized as well. This can be accomplished through national housing policies that support mixed-income community development program and that make use of reasonable market principles. By authorizing and appropriating funding for such a program, the nation would:

- Provide eligible low-income American citizens with access to decent, affordable housing (rental and ownership) in healthy mixed-income communities, with great schools and quality of life amenities;
- Maximize private developer involvement and private investment;
- Leverage federal investment; and
- Break the cycle of poverty and hopelessness.

Let me add one caveat, however. Federal dollars should only be expended to achieve positive outcomes for America's citizens. Congress should not authorize or appropriate a program based on failed policies or programs. For the past 10 years, our neighborhood revitalization program has been making the most of federal dollars (primarily through the HOPE VI demonstration program) to attend to problems created by bad public policies of the past – some of which were created in Atlanta and some of which were created in Washington.

## **BACKGROUND**

### *Commission for Severely Distressed Public Housing*

More than a decade ago, the George H.W. Bush Administration and Congress saw a need for new ideas to address the severe housing and social problems facing Atlanta and other large urban centers when it created the Commission for Severely Distressed Public Housing. The Commission's final report called for new thinking around the issue of providing affordable housing in American cities. Ultimately, through the Urban Revitalization Demonstration program (later to be known as HOPE VI), cities and communities were called on to create locally derived approaches that would be funded with federal dollars.

Until the flexibility afforded under this demonstration program, federal law:

1. Barred housing agencies from demolishing public housing without replacing it with another so-called 'hard unit.' No matter how obsolete a structure was or how bad the sociology of the community, demolishing public housing was prohibited; and
2. Stipulated that any housing project subsidized with federal funds (Section 9 public housing program) must be wholly owned by a local housing agency. In effect, this excluded public/private partnership.

These public policy restrictions made it impossible to address the troubles plaguing Atlanta and other large urban cities. Later under the Clinton Administration, Secretary Henry Cisneros initiated fundamental policy changes that supported this sea change, namely:

- The elimination of one-for-one replacement;
- Enabled private sector involvement in the ownership and management of assisted apartments;
- Apartments set aside for low-income families could be subsidized with federal funds (Section 9 public housing program) even if their ownership rested with someone other than the local housing authority; and
- A private management company could establish and manage a site-based waiting list, conduct screening and could establish standards for the community.

Building on these changes and by leveraging private sector know-how, the legal, regulatory and financial model for public/private ownership and leveraging public dollars with private funds was developed. AHA and its private sector development partner, The Integral Partnership of Atlanta, worked with HUD during a 12-month period to create the legal, regulatory and financial model to develop the first mixed-use, mixed-income community in the nation, Centennial Place.

The financial closing for the development of Phase I of Centennial Place in March 1996 gave birth to the nation's first master-planned, mixed-use, mixed-income development with a public housing component. This model was promoted and endorsed by HUD and became the national

model for development of mixed-income, mixed-finance communities under the HOPE VI Program. This model has been successfully utilized throughout the United States.

Because of the flexibility and the political willingness to confront the hard issues, the HOPE VI demonstration program has been the most important urban revitalization effort that America has undertaken in the last 40 years. In Atlanta's neighborhoods it has:

1. Brought communities and neighborhoods back to life;
2. Helped to address broken neighborhood schools;
3. Restored civility to large sections of the city; and
4. Provided a bridge to mainstream America for families who have been institutionalized in warehouses of poverty, hopelessness and despair and who have consequently become marginalized by the rest of society.

If executed properly and with a policy and outcome driven focus, the success we've experienced in Atlanta can be replicated in city after city, including those along the Gulf Coast.

## **MAKING CHANGE**

In Atlanta, we developed a two-step process for making change happen:

1. *The Right Problem* – We prepared ourselves and our city for an open and honest assessment of the right problem, not necessarily the most visible crisis.

All our efforts have not been enough to break the grip of the downward spiral of social decay that plagues these warehouses of poverty. That is, despite:

- Privatizing the property management;
- Strictly enforcing the lease; and
- Improving the physical living conditions to their highest possible standard,

each of the communities that have not yet been redeveloped is experiencing atrocious circumstances. Without a comprehensive physical and social revitalization, these horrible conditions repeat themselves.

In the large public housing family communities you'll find:

- Extreme, multi-generational poverty—average incomes of approximately \$7,300 per year;
  - Exceedingly high rates of unemployment— 85 percent of the able-bodied population is unemployed;
  - A captive elementary school performing at severely substandard levels, typically at the lowest rungs on uniform tests; high levels of illiteracy or functional illiteracy at graduation; and high truancy rates
  - High crime rates;
  - No new private investment to speak of for decades; and
  - High levels of disinvestment in the surrounding neighborhoods.
2. *Expect the Best* – We had to maintain high expectations, propose an achievable solution to the problem, and stop implementing policies that yield harmful outcomes. In the fall of 1994

we adopted a policy to stop warehousing poor families in concentrated poverty. With the revitalization of Techwood/Clark Howell, Atlanta sought:

- To create a healthy mixed-income community;
- To cease the concentration of poverty;
- To end the stigma of the public housing program;
- To leverage federal grant funds; and
- To mainstream the families into the larger community.

## **DEFINING A MIXED-INCOME COMMUNITY**

The Atlanta model for a mixed-income community is *a market rate community owned by a public/private partnership, with a seamless affordable component.*

The long-term success of mixed-income communities must be driven by the same market factors that drive the success of every other real estate development. Daily competition to attract market rate renters and the need to meet debt service and achieve specified returns on investment require that the properties are managed and operated at a superlative level. We have learned to optimize success. A successful business model includes the following:

1. The public housing component should be no greater than 40 percent;
2. Market rate principles must dictate the mix of amenities and the quality, management, and sustainability of the property. Investors have financial expectations and high standards and covenants that must be met;
3. Expectations of the families must be high. A three- to five-year investment period must be made in the human development of families relocated from areas of concentrated poverty to assure their successful mainstreaming into society; and
4. Community revitalization must be done holistically with focus on high performing neighborhood schools, great retail and commercial support, great parks and recreational facilities.

The revitalized communities attract market rate renters and the average occupancy across all income segments that comprise the mixed-income communities is 95 percent, comparable to the high-end rental market in Atlanta.

This level of success takes time and effort. Developing mixed-use, mixed-income communities on a large scale is not simply a matter of letting a contract. It intentionally involves the larger community and a broad range of investors and stakeholders.

## **PROPOSED NEXT STEPS**

Congress has invested almost \$5 billion to see what innovation can accomplish, and, with 10 years of work behind us, it is clear what works and what does not work. Congress should cull best practices from its \$5 billion investment to authorize a program to address the severely distressed public housing that remains. The problems identified by the Commission for Severely Distressed Public Housing have not been solved. But they can be if the thoughtful outcome-focused policies are adopted and strategic investments are made for America's citizens and communities.

Public housing funds alone are not sufficient to create the wholesale transformations that are needed. Congress should write, authorize and fund an effort that is driven at the local level by

existing market conditions, housing and community needs, and local resource availability; e.g., low-income housing tax credit cycles, private activity bond volume cap, and absorption of market rate units in the community.

Administrative oversight of this mixed-income, mixed-finance program cannot be overly prescriptive, however. Guiding principles should be used to measure outcomes and the reauthorization should be shaped by **three guiding principles**:

1. Abandon Federal Policies that Promote Concentrated Poverty

As a threshold matter, we must deconcentrate poverty and eliminate the stigma associated with public housing. The objective is to create market rate communities owned by public/private partnerships, with a seamless affordable component.

By de-concentrating poverty in Atlanta, affected residents are realizing increased opportunities to participate in social and economic upward mobility. In short, deconcentrating poverty helps return, or sometimes introduce, individuals to the mainstream of society.

2. Adopt Policies that Use Public Dollars to Leverage Private Investment

Federal funds must come in to communities as *seed capital*. We must encourage and promote the assistance of private financial and community stakeholders (non-profits, etc.) in the neighborhood revitalization efforts. Specifically,

- The cost of relocation, demolition and environmental remediation cannot be financed using conventional sources, especially if the goal is to reserve a significant percentage (30 percent) of the housing in the mixed-income community at affordable rents to very low-income families.
- The dynamic between the public and private sectors must change. Substantive private involvement introduces a discipline the current public housing program does not have. The creation of the public/private partnership guarantees a built-in “accountability” feature because private sector involvement guarantees that the communities remain sustainable and desirable, and the introduction of private investment results in higher community performance standards and expectations. With this built-in accountability, federal government can focus on measuring outcomes versus managing bureaucratic processes.

3. Enlightened Community Self-Interest

Congress must promote a policy that promotes building communities holistically. It is not just housing that sustains a community—it is the quality of the neighborhood schools, the quality of the recreational facilities, green space, retail opportunities and jobs. Specifically,

- Federal officials must find the means to foster and provide cross-departmental or agency incentives for localities to work together. Coordinating the distribution of funds for public infrastructure, transportation, and education and strategies that facilitate and attract future private investment in the surrounding neighborhood must be encouraged.

- It is essential to invest in human development programs to support the integration of affected families into mainstream America. The results here in Atlanta have been a tremendously improved sociology, better neighborhood schools, more neighborhood reinvestment, higher rates of employment among the assisted families, and a crime rate that has been reduced by more than 90 percent. In total, the change has resulted in a promising future instead of a certain failure for the affected families.

To illustrate the point, one needs to consider Centennial Place Elementary school which sits on the former site of the nation's first public housing project, Techwood Homes (early HOPE VI recipient). The school serves downtown neighborhoods, including Centennial Place, a thriving, mixed-income community where residents work, pay rent, and abide by their rental agreement and the law.

Unlike the concentrated poverty that once occupied the real estate, the neighborhood is socially and geographically integrated into the broader community and it's an environment that is safe. On national standardized tests, Centennial Place Elementary School students out-perform the national averages. Several other elementary schools in more recently revitalized communities have shown substantial improvements as well.

Centennial Place Elementary has several lessons for those of us helping to shape public policy.

- First and foremost, all children can learn if provided with an environment that is devoid of chaos and hopelessness.
- Failure should not be a given track for children living below the poverty line any more than it should be for a child living in an affluent setting.
- And finally, children develop and grow in a whole environment. Certainly where they learn matters, but where they live matters, too.

In closing, as the nation considers how it will address the horrible tragedy that struck the Gulf Coast, we can only hope Congress and the Administration will give full consideration to the benefits of a Mixed-Use, Mixed-Income strategy.