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Going for Growth

Promoting Residential Reinvestment in Massachusetts Gateway Cities

BY BENJAMIN FORMAN

In a 2007 report, *Reconnecting Massachusetts Gateway Cities*, MassINC described how regions around the Bay State struggle to keep pace as the Commonwealth transitions to a knowledge-based economy. While high-tech industries with high-wage jobs increasingly concentrate in Greater Boston, other Massachusetts regions are having difficulty rebuilding a job base hit hard by the decline of domestic manufacturing. This challenge is most pronounced in the state's older mill cities—termed "Gateways"—for the role they have traditionally played both as vital centers in their regional economies and as escalators to the middle class.

The state's uneven growth patterns have many consequences, but nowhere are the challenges more apparent than in regional housing market disparities.

Finding a place to live at an affordable price is exceptionally difficult throughout much of Greater Boston, where the high-tech economy is robust, land is scarce, and restrictive local zoning makes it hard to build new homes. These *strong market* conditions squeeze low- and middle-income residents, who frequently devote more than half their pay to cover housing costs.

Declining residential neighborhoods represent the other extreme. Every region in the state has these pockets, but they are most extensive in Gateway Cities destabilized by a potent cocktail of manufacturing job loss coupled with suburbanization. Even with the resurgence in demand for urban living in many US cities, families with a choice remain hesitant to buy in these *weak markets*, where values have fallen below the costs of construction and appreciation is uncertain. Limited private investment in these neighborhoods slowly exposes an aging housing stock to abandonment and blight.

Both strong and weak markets exact a heavy toll on the Commonwealth's economy. Strong markets deter businesses—particularly those with middle class jobs—that might otherwise locate or expand in Massachusetts. In Gateway Cities with weak housing markets, neighborhood distress makes it harder to attract new employers to replace departing manufacturers.

In an era where education is increasingly critical for success, the impact of residential disinvestment on schools is a particularly acute concern for the long-term competitiveness of these cities. Neighborhood decline means that Gateway City schools struggle to educate an increasingly poor student population. As revealed in a recent MassINC report, the share of students in these 11 cities who are low-income grew from less than half to almost two-thirds between 1992 and 2008 (Table 1). Districts that serve disproportionately poor students have a hard time assembling the resources to offer the additional services these students need to achieve in the New Economy. With busing an unlikely option and equalization formulas tapped, perhaps the best and most viable long-term solution is an effort to catalyze residential development that restores income diversity in Gateway City school districts.

Table 1

Percentage of Students classified as Low-Income[1]

CITY	1992	2008	PERCENTAGE POINT CHANGE
Brockton	35%	72%	36%
Fall River	45%	67%	21%
Fitchburg	45%	60%	15%
Haverhill	26%	38%	13%
Holyoke	67%	77%	10%
Lawrence	64%	83%	19%
Lowell	45%	67%	22%
New Bedford	50%	66%	16%
Pittsfield	24%	44%	20%
Springfield	52%	79%	27%
Worcester	47%	65%	19%
Gateway Average	**45%**	**65%**	**20%**

Source: MassINC's analysis of data from the Dept. of Elementary & Secondary Education
[1] Students eligible for the federal Free and Reduced Price Meals Program

While the state has moved aggressively to address strong market challenges—subsidizing the construction of units for low- and moderate-income families, providing rental assistance vouchers to bridge the gap between what low-income families can afford and market prices, and enacting inclusionary housing laws, which help developers overcome restrictive local zoning—the Commonwealth lacks funding designed specifically to revive weak markets.

Communities that struggle with disinvestment challenges try to remedy abandonment and blight with the only public funding streams available. These resources are designed to produce affordable housing in strong markets. As a neighborhood revitalization strategy, this intervention is ineffective in weak markets, where the overarching issue is lack of demand, not undersupply.

As housing values rose across the state, there was some optimism that these pressures might lead to new reinvestment in Gateway City neighborhoods. But as the bubble recedes and markets rebalance, the challenges come back into focus. The current foreclosure crisis only adds to the abandoned stock of housing created in these cities during the last wave of foreclosures in the 1990s, and further demonstrates the costs of enduring instability. Despite the many unrealized assets and opportunities in these critical cities, residential disinvestment continues to check their growth.

Massachusetts urgently needs a comprehensive plan to catalyze residential investment in Gateway City housing markets. This plan must be tailored to the realities of housing development in weak markets. Successful revitalization in cities across the country demonstrates how demand for urban living can be rebuilt in neighborhoods that previously suffered from severe distress. These examples provide important lessons to inform weak market revitalization strategies. While recent initiatives developed by the Patrick administration represent noteworthy attempts to implement these best-practices, to make real gains, a neighborhood revitalization agenda must advance through the legislature to give state agencies the necessary resources and flexibility.

The pages that follow provide a primer on efforts to promote residential reinvestment in Massachusetts Gateway Cities, describing in more detail the economics of weak housing markets and the need to address them (Section I); building a framework for comprehensive weak market housing strategies (Section II); outlining the state's current housing resources, and their utilization in weak markets over the last 15 years. (Section III); and concluding with an action plan (Section IV) for new housing strategies that will catalyze growth in the state's Gateway Cities.

I. The Economics of Gateway City Housing Markets and the Challenges They Create

Gateway Cities have enormous assets that should be reflected in the value of their housing. These include proximity to universities and hospitals, dense walkable neighborhoods with unique historic architecture, and attractive amenities like parks, harbors, and riverfronts. Visitors to Gateway Cities, including real estate development professionals, are invariably impressed by these highly visible strengths. Unfortunately, a cycle of decline, brought on by the loss of manufacturing jobs and the movement of families to the suburbs, has distorted the value inherent in these assets, making it difficult to leverage these opportunities for renewal. As these neighborhoods linger, there are growing costs to the state—both directly in unnecessary ameliorative services as well indirectly in terms of opportunity cost.

A. WEAK MARKET ECONOMICS

Housing markets are particularly sensitive to changes in regional economies because supply is extremely durable, which means it does not easily contract.[1] Over the last several decades, the loss of manufacturing jobs, coupled with the broader trend of families moving outward in favor of suburban living, has reduced demand for housing in older industrial cities throughout the Northeast and Midwest. This is the case in many of the Commonwealth's older mill cities, where excess supply has led to disinvestment and blight, creating a reinforcing cycle of falling demand.

As housing values spiral downward, property owners become more and more unwilling to make upgrades or even basic repairs because they are unlikely to recoup additional investment when they sell their homes. Beyond this simple financial equation, important social dynamics also come into play as markets soften. Housing experts note that when residents stop investing money in their homes, they also tend to devote less time and energy to their neighborhoods. Community confidence declines and cooperation erodes. This can undermine basic neighborliness, and eventually communities suffering from disinvestment become places where families with a choice no longer choose to live.[2]

Variations in Market Strength

Throughout the Gateway Cities, market conditions differ, and it is useful to have some measure to gauge the degree to which they vary. One important indicator of local housing market strength is a comparison of values to construction costs. As property values fall below the cost of new construction, it becomes more and more difficult for developers to build new housing or significantly rehab older homes. Across the 11 Gateway Cities, on average, sales prices per square foot are just 22 percent higher than construction costs for the most basic single-family home. HUD Fair Market Rents (FMR) provide another useful measure of value.[3] Analysis of Gateway City FMRs shows that rental cash flows are even less likely to cover the debt to finance construction of a single-family home. The average Gateway City FMR-to-construction-cost margin is just 13 percent. While variation among the Gateway Cities is fairly wide—Springfield sales prices are 1 percent lower than construction costs, and Lowell's FMR generates cash flow 37 percentage points above replacement costs—compared to the corresponding figures for Boston (Table 2), Gateway City markets are relatively weak.

Construction cost figures account for just the materials and labor required for a new home. With land acquisition and other miscellaneous expenses in-

Table 2

Indicators of Market Strength

	MEDIAN SALES PRICE PER SQ. FT.[1]	COST PER SQ. FT.[2]	FAIR MARKET RENT	NEW CONSTRUCTION COST[2]	FAIR MARKET RENT DEBT SERVICE COVERAGE[3]	RATIO OF SALES PRICE TO CONSTRUCTION COST	RATIO OF RENT DEBT COVERAGE TO CONSTRUCTION COST
Brockton	$183	$124	$1,213	$149,371	$202,318	1.47	1.35
Fall River	$155	$124	$1,020	$149,371	$170,127	1.25	1.14
Fitchburg	$134	$124	$913	$149,371	$152,281	1.08	1.02
Haverhill	$171	$126	$1,127	$150,705	$187,974	1.36	1.25
Holyoke	$122	$116	$844	$138,702	$140,772	1.06	1.01
Lawrence	$155	$126	$1,127	$150,705	$187,974	1.24	1.25
Lowell	$157	$126	$1,242	$150,705	$207,155	1.25	1.37
New Bedford	$163	$124	$819	$149,371	$136,602	1.31	0.91
Pittsfield	$127	$113	$806	$136,034	$134,434	1.12	0.99
Springfield	$115	$116	$844	$138,702	$140,772	0.99	1.01
Worcester	$158	$126	$965	$150,705	$160,954	1.26	1.07
Gateway Avg.	**$149**	**$122**	**$993**	**$146,704**	**$165,579**	**1.22**	**1.13**
Boston	$243	$134	$1,353	$161,374	$225,669	1.80	1.40

[1] Sales price data from zillow.com (36-month average, April 2006-March 2009)
[2] Construction costs data from 2008 RS Means (1200 sq. ft. 1 to 2 story single-family home with basement and 1.5 baths)
[3] HUD 2008 2-bedroom Fair Market Rent; 360 payments at 6 percent interest

cluded in the calculation, new development clearly does not make economic sense in many Gateway City neighborhoods. Moreover, the large numbers of foreclosures and short sales these communities are experiencing have added months of volume to supply, leading to further weakness in Gateway City markets. Most importantly, these sales prices and FMRs are citywide averages; within communities, there are generally large variations among neighborhoods.

Neighborhood Variation within Cities

While Gateway City neighborhoods represent the entire spectrum from very desirable high-cost areas to neighborhoods struggling with severe distress, two types of neighborhoods commonly found throughout weak market cities merit attention.

These include areas with highly concentrated poverty evident in neighborhood-level data from the 2000 Census. Statewide, Massachusetts has 144 high-poverty neighborhoods—86 are located in Gateway Cities. Together, these 11 communities are home to more than 60 percent of state residents living in high-poverty neighborhoods, even though they represent just 30 percent of residents with income below poverty and only 15 percent of the Massachusetts population.

The second neighborhood type requiring public attention are the more transitional areas destabilized by weak markets. While more subtle data are necessary to cull them out, these areas generally have attractive housing and much less extensive blight. They remain vulnerable, however, and many are slowly losing the middle class residents that cities need to be healthy—residents with the income to maintain a healthy housing stock and the education, training, and time to play important leadership roles in the community.

Table 3

Gateway City Population Change, 1960-2004

CITY	1960	1970	1980	1990	2000	2007	% CHANGE
Brockton	73	89	95	93	94	93	28%
Fall River	100	97	93	93	92	91	-9%
Fitchburg	43	43	40	41	39	40	-7%
Haverhill	46	46	47	51	59	60	29%
Holyoke	53	50	45	44	40	40	-25%
Lawrence	71	67	63	70	72	70	-1%
Lowell	92	94	92	103	105	104	12%
New Bedford	102	102	98	100	94	92	-10%
Pittsfield	58	57	52	49	46	43	-26%
Springfield	174	164	152	157	152	150	-14%
Worcester	187	177	162	170	173	174	-7%
Total	**999**	**986**	**939**	**971**	**966**	**956**	**-4%**

Source: U.S. Census Bureau

In fact, in a number of the Gateway Cities, market weakness may have been driven more by falling demand among middle class residents than by falling demand overall.[4] Some communities have faced significant population decline, but others have had more modest losses, and both Brockton and Haverhill have had sizeable population gains (Table 3).

Falling income for families struggling with the loss of well-paying manufacturing jobs, along with growth in lower-income households, has meant that Gateway Cities also stand out on indicators of housing cost burden. These measures show that many families struggle to cover housing costs much like families living in strong markets. It is important, however, to recognize that this is more the result of low income than lack of supply. In this instance, the proper response is to assist families with income supports like the Earned Income Tax Credit, as opposed to producing more housing and expanding supply.

B. THE COSTS AND CONSEQUENCES OF WEAK GATEWAY CITY HOUSING MARKETS

Volumes of studies describe the costs associated with distressed housing markets. These include both direct costs, like remedying the effects of elevated levels of crime, and indirect costs, such as lost productivity in both people and places.

Direct Costs

Concentrating poor families in neighborhoods with other extremely low-income residents magnifies the negative effects of poverty, increasing crime, high school dropout rates, teen pregnancy rates, and incidence of risk behaviors like smoking and substance abuse.[5] By intensifying these social challenges, concentrated poverty has real costs for individuals, Gateway Cities, and the state.

The symptoms of highly concentrated poverty in Gateway Cities are apparent in indicators of individual

Table 4

Symptoms of highly concentrated poverty

	TEEN PREGNANCY		DROPOUT		SUBSTANCE ABUSE		VIOLENT CRIME	
	RATE PER 1,000 GIRLS AGES 15-19	% OF STATE-WIDE	DROPOUTS ANNUALLY AS A % OF ENROLLMENT	% OF STATE-WIDE	ADMISSIONS PER 1,000 RESIDENTS	% OF STATE-WIDE	CRIMES PER 100,000 RESIDENTS	%OF STATE-WIDE
Brockton	43	201%	6%	155%	25	160%	1,240	272%
Fall River	52	242%	10%	265%	31	197%	1,216	266%
Fitchburg	58	273%	9%	243%	NA	-	639	140%
Haverhill	38	180%	7%	202%	14	91%	501	110%
Holyoke	95	445%	11%	307%	NA	-	1,262	276%
Lawrence	81	378%	15%	400%	18	112%	636	139%
Lowell	51	239%	4%	120%	23	145%	957	210%
New Bedford	70	329%	8%	224%	36	230%	1,104	242%
Pittsfield	50	233%	5%	124%	45	283%	340	75%
Springfield	81	379%	11%	295%	36	229%	1,822	399%
Worcester	34	162%	6%	161%	28	177%	738	162%
Gateway Cities	**58**	**270%**	**8%**	**223%**	**29**	**182%**	**1,039**	**228%**
State	21	100%	4%	100%	16	100%	456	100%

Source: MA Department of Public Health; MA Department of Education; MA State Police

well-being. Across these 11 communities, teen pregnancy, violent crime, and high school dropout rates are mostly more than twice, and in some communities three and even four times, statewide averages (Table 4). Concentrated poverty clearly has a particularly heavy toll on adolescents and teens working to develop skills in an economy that increasingly demands higher levels of education and training.

Opportunity Costs

From a purely economic perspective, this lost human talent undermines the Commonwealth's future competitiveness. Finding young workers to replace the state's 1.8 million Baby Boomers, who begin retiring in 2011, is a daunting challenge.[6] In contrast to most areas of the state, the generation of replacement workers in Gateway-area labor markets—residents ages 7 to 25 in 2000—is actually larger than the Boomers by 24,000 potential workers.[7] Efforts to address concentrated poverty and its effects are necessary to maximize the potential of these future generations.

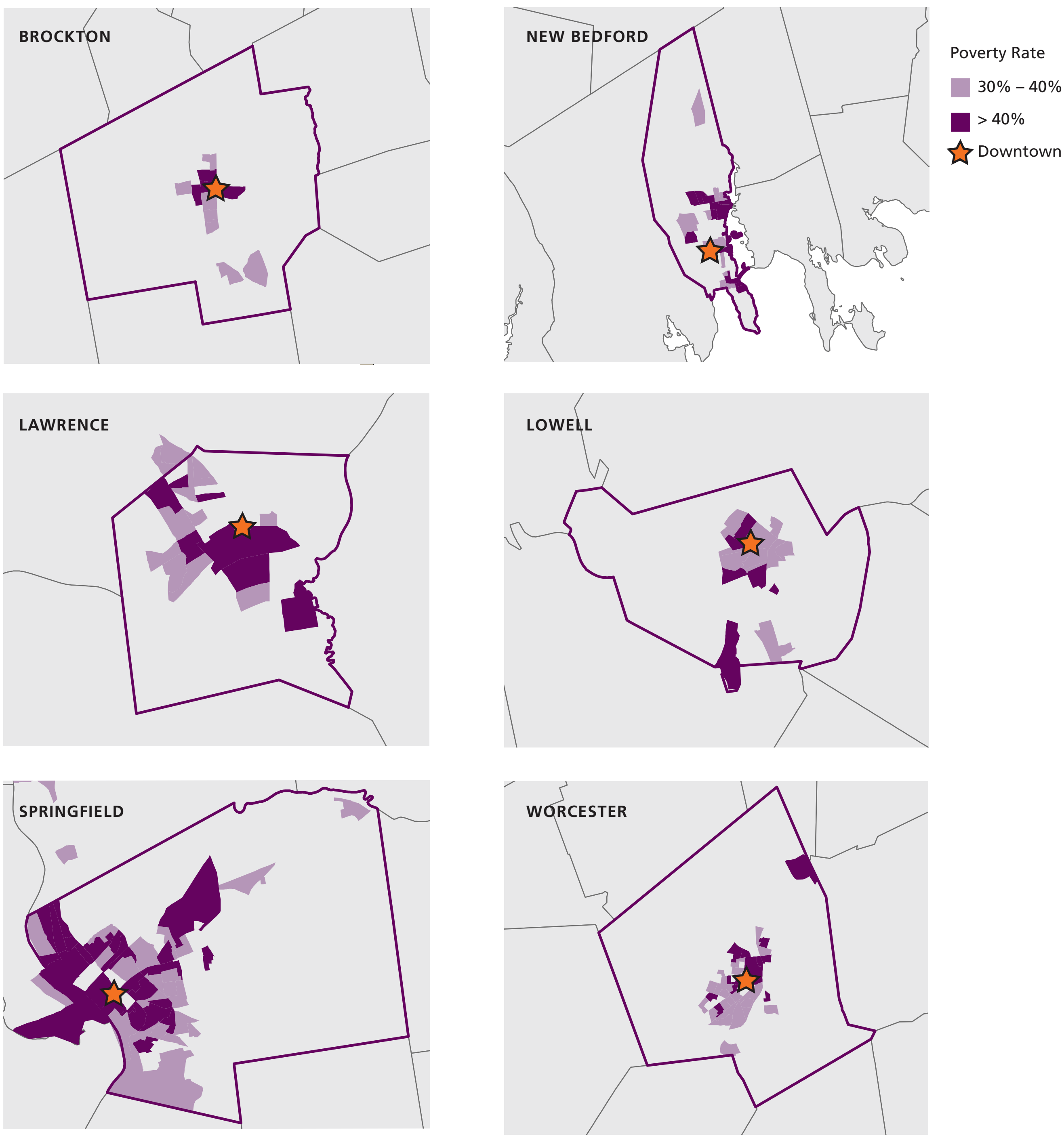
In addition to increasing the supply of skilled workers, stronger Gateway Cities could drive regional productivity in other ways as well. Research shows that metro areas with vibrant core cities are more productive and competitive in today's global economy. This is because cities with dense clusters of downtown economic activity generate "knowledge spillovers" that breed innovation essential for growth.[8] In addition, attractive residential neighborhoods in strong core cities draw the young talented workers that are the lifeblood of Knowledge Economy companies. Dense core cities also boost regional competitiveness in more basic ways, like reducing commuting and transportation costs.[9]

Unfortunately, neighborhood distress has made it more difficult for Gateway Cities to transform from industrial cities to the centers of Knowledge Economy business activity. As the pockets of red and orange on the maps on page 6 demonstrate, neighborhoods with concentrated poverty cluster around Gateway City downtowns. Public officials in these communities consistently cite the proximity of poverty to these business districts as a serious barrier to attracting new companies. A 2004 survey of developers and other business leaders in the state's older industrial cities underscores this point. The study found that the negative impact of public perceptions of poverty in downtown areas was one of five economic development deal breakers.[10]

The direct cost associated with addressing poverty that these communities must shoulder also has a real impact on business attraction and retention. Despite significant state and federal aid to urban areas that disproportionately house the poor, research shows distressed cities must still divert significant local resources to cover related services, which raises the tax burden on local businesses and non-poor residents.[11] Higher costs and generally inferior service quality have been significant contributing factors in the loss of businesses and residents from older urban areas.

The concentration of poverty in core cities also undermines regional economies by fostering division and fragmentation. Fragmented metro areas tend to underinvest in public infrastructure and services, driving down regional

Gateway City Concentrated Poverty



Source: U.S. Census Bureau

productivity.[12]

Lastly, it is important to consider the smart growth implications of stronger Gateway City neighborhoods. By accommodating more residents at higher densities, investment in Gateway Cities could help address the state's broader affordability challenges. Higher-density development in Gateway Cities would increase energy and environmental efficiency as well. Strong urban centers provide enormous energy advantages in contrast to weak older cities, which fuel sprawling low-density development.[13] Creating more compact and efficient development is particularly crucial in Northeastern regions that require large amounts of energy to heat homes during long cold winters. Recent studies quantifying regional trends in development and energy use highlight a need for urgency. Without action leading to higher-density development, current patterns will make Massachusetts less competitive in a carbon-constrained economy relative to Western competitor states.[14]

II. What Does a Gateway City Neighborhood Revitalization Strategy Look Like?

Decades of experience with neighborhood revitalization in communities around the nation provide four valuable insights that inform efforts to stimulate redevelopment in the Commonwealth's Gateway Cities. First, meeting the unique needs of weak markets will require different tools. Second, to have real impact, public interventions must help prioritize and target limited resources. Third, housing policies should be comprehensive to address the complex challenges associated with neighborhood revitalization. And fourth, successful redevelopment requires capacity building both in neighborhood organizations and in local governments.

A. DIFFERENTIATED POLICIES FOR WEAK MARKETS

Strengthening weak market neighborhoods is fundamentally about drawing in new investment. This means grounding strategies in market realities with interventions designed to increase home values by making neighborhoods appeal to a particular market niche. Crafting the right response requires a thorough understanding of real estate markets, and housing policies that differentiate, not only between strong and weak markets generally, but also more specifically between distressed and transitional neighborhoods within weak market cities.

Strengthening weak market neighborhoods is about drawing in new investment.

At the federal level, momentum has been building for differentiating housing policy to neighborhood conditions for a number of years. Providing more flexibility was a major theme in the report of the Millennial Housing Commission.[15] Respected researchers like Alan Mallach, director of the National Housing Institute, regularly emphasize this point in their writing and commentary.[16] And most recently, the urgent need to better tailor housing initiatives to neighborhood conditions was front and center in a memo prepared by the University of Pennsylvania for the new HUD secretary.[17] Despite this steady hum, detailed proposals for reform have yet to emerge.

In thinking about the right response to the most distressed neighborhoods, it is useful to consider the strategies housing policy has pursued over the last several decades. Bruce Katz of the Brookings Institution describes three distinct approaches. The dominant strategy—"improving the neighborhood"—takes the socioeconomic composition of a neighborhood as a given and tries to upgrade conditions, with community-based organizations largely in the lead. A second policy, "expanding opportunity," focuses on helping residents access jobs and better schools, a people-based model that moves residents out to lower poverty areas. The most recent approach, "transforming the neighborhood," focuses on fundamentally altering the socioeconomic mix of distressed neighborhoods to create more economically integrated communities.[18]

Experience with these three strategies provides important lessons. While "improving the neighborhood" can lead to visible change, the linkages between revitalization and poverty alleviation are often limited. Too frequently, the result is simply new housing that assigns more poor families to neighborhoods with weak schools and limited job prospects.

The "expanding opportunity" model responds to this concern, but it has proven limited because the supply of housing for low-income families outside of low-income neighborhoods is extremely challenging to expand. To the extent that mobility is possible, only residents given the opportunity to move benefit. And ultimately, this people-based approach offers no solution to the place-based problem of neighborhood distress. While the "transforming the neighborhood" model also has drawbacks, most notably high upfront costs, of the three, it is the approach with the most potential to generate long-term change.

Cities determined to rebuild successful economically integrated neighborhoods are pursuing increasingly ambitious transformation projects like the East Baltimore Revitalization Initiative and the Greater University Circle Initiative in Cleveland. These long-term efforts involve a variety of activities, such as land banking and brownfield remediation, to assemble and prepare parcels for redevelopment. They require strong community involvement and must address difficult issues relating to equity. Often residents need to be relocated during redevelopment, which introduces another costly and complex task. All of these requirements call for programs and policies specifically designed to pursue transformative development where this tactic is appropriate.

As cities pursue these ambitious revitalization projects, many are also recognizing that much less costly efforts are needed to reinforce transitional neighborhoods, traditionally stable areas threatened by disinvestment. This strategy, often referred to as the "Healthy Neighborhoods Approach," provides tools to strengthen areas where markets that generally function well are beginning to slip. These tools help neighborhoods emphasize and strengthen positive assets, and rely largely on the initiative of residents. They include grants and low-interest loans that help current property owners make improvements and give new buyers incentive to rehabilitate older homes. A number of cities are also helping mitigate the risk associated with purchasing in a transitional neighborhood by offering insurance that protects homeowners from neighborhood depreciation (see text box).[19]

Differentiating strategies to neighborhood markets requires data. State and local policymakers need reliable numbers at neighborhood scale to provide support for (and evaluate the success of) public interventions. Equally critical, information infrastructure can help policymakers react more nimbly to both upturns and downturns in local housing markets. The Reinvestment Fund (TRF) in Philadelphia has demonstrated an innovative approach, collecting fine grain data at neighborhood-scale and relying on this information to tailor market-based strategies to neighborhood conditions. Cities are increasingly taking advantage of new database technologies to develop a more sophisticated understanding of their housing markets and base public investments on more nuanced assessments of market needs.[20]

THE HEALTHY NEIGHBORHOODS APPROACH

Healthy neighborhoods are places where it makes economic sense for people to invest their time, money, and energy. The Healthy Neighborhoods Approach focuses on increasing demand for homes and rental units, and measures progress by tracking home value appreciation, as opposed to the number of new housing units produced. Healthy Neighborhood strategies were first tested in Battle Creek, Michigan, where these tactics led to the successful revitalization of a distressed community.

Tools that help families invest in relatively unstable markets are critical to the Healthy Neighborhoods Approach. Often families are hesitant to rehab properties in blighted urban neighborhoods because home values after improvements will be far lower than the costs incurred. The Connecticut Housing Finance Authority supports a model program in Hartford, which offers families a second mortgage to cover the "gap" between renovation costs and the appraised value after the work is complete. This second mortgage is partially forgiven after five years of occupancy, and written off fully after seven.[36] Another similar tool is Home Value Protection, which insures homebuyers who take a chance on a revitalizing area by protecting them against depreciation. Home Headquarters, Inc., has successfully offered this product in targeted neighborhoods of Syracuse since 2002.[37]

Providing residents with the technical assistance to make investments in their properties is also a cornerstone of the Healthy Neighborhoods Approach. In Baltimore, the nonprofit Healthy Neighborhoods Inc, a public-private partnership, works to stabilize at-risk neighborhoods by providing rehab specialists. These architects and real estate development professionals help residents design projects and access grants and low-interest loans to make investments in their homes that improve the neighborhood's appearance.

B. RESOURCES TARGETED FOR IMPACT

While housing interventions must be tailored to meet the needs of different markets, intervention is not possible in all neighborhoods simultaneously. With limited resources, public investment needs to be strategically targeted to have an effect.

Studies nationally show that communities generate real gains by focusing their resources for impact. In fact, research demonstrates that cities with substantial levels of neighborhood distress and limited capacity are only effective when they target housing investments.[21]

Richmond's "Neighborhoods in Bloom Program" is a compelling example of the benefits derived from channeling state, federal, private, and philanthropic resources into targeted areas. Through a community process, Richmond identified six neighborhoods based on need, development potential, and positive impact on the city overall. Richmond then allocated 80 percent of its HOME and CDBG funds to these areas plus additional support through the local budget. These capital investments were coordinated with a comprehensive response that included efforts from the policy department, the housing authority, local universities, and a national community development intermediary (LISC). A five-year evaluation found that home values in Richmond's six program neighborhoods increased 10 percent faster than in comparable areas each year after the city began to strategically focus public and nonprofit funding in 1999.[22]

Targeting resources, as opposed to dispersing them more evenly across neighborhoods, produces gains three ways: Generating multiplier effects; as homeowners and landlords see improvements in an area, they tend to invest more in their properties. Second, targeted investment can help communities quickly reach thresholds on important measures of neighborhood health, such as homeownership. And third, targeting makes redevelopment more efficient. Within a more limited area, for instance, outreach and capacity building become less challenging.[23]

Cities with limited capacity are only effective when they target housing investments.

Political challenges are the greatest obstacle to strategic targeting. Experience, however, shows that communities are often responsive to strategic targeting if they believe the efforts offer a rational approach, particularly if they represent a change in policies that are often viewed as favoring some neighborhoods at the expense of others solely for political expediency. Cities can make targeting schemes more acceptable by using them to leverage additional outside resources, selecting a diverse range of areas for investment, and clearly communicating selection criteria and objectives.[24]

C. COMPREHENSIVE COORDINATION

Coordinating the revitalization response, both within the housing orbit and among related agencies (e.g., schools, social services, transportation, economic development), offers three critical contributions to a weak market housing strategy. First, coordination increases efficiency and promotes long-term focus. Second, coordination brings in organizations that can help neighborhoods build or improve assets that make them marketable. And third, coordination facilitates partnerships necessary to tackle complex social challenges.

Large-scale revitalization projects depend on resources from a number of state and federal entities with varying requirements and organizational interests. This leads to increased complexity and cost, which makes coordinating action essential, especially when projects involve private developers, who need government to work in a predictable and timely manner. A coordinated organizational strategy can also help mediate short-term political distractions to keep attention focused on long-term revitalization goals.

Whether the focus is transformative revitalization or stabilizing more transitional areas, attractive amenities such as parks, retail districts, libraries, and recreation centers make neighborhoods more marketable, which makes coordination with outside agencies also critical.

Often, the most important neighborhood asset is a school. High-performing schools are fundamental to healthy neighborhoods. In the past, urban school reform and neighborhood revitalization have been treated as distinct issues. A more integrated approach is beginning to take shape at the federal level. Schools have anchored some of the nation's most successful HOPE VI revitalization projects.[25] The Obama Administration is taking steps to combine housing revitalization and school reform, introducing a new *Choice Neighborhoods Initiative* in the HUD FY 2010 budget. *Choice Neighborhoods* will expand the HOPE VI program by prioritizing applicants that tie neighborhood revitalization with efforts to build high-performing urban schools.[26]

As challenging as it is to connect local schools to neighborhood revitalization, it may be even harder to organize the many disparate agencies that deliver core services (e.g. child care, education, job training, transportation) in lower-income neighborhoods. The Millennial Housing Commission stressed the importance of greater coordination among these actors at the federal level, arguing that steps must be taken to bring together a variety of programs to support comprehensive community change.[27]

While aligning these federal programs is an excellent aspiration, better integrating housing programs with the workforce development system is perhaps the most critical connection. Existing federal programs already offer states and local public housing authorities flexibility to enhance coordination between housing and workforce programs. Despite these opportunities, the majority of families receiving housing assistance are not participating in programs to help those who are not working find jobs, and assist those with work advance toward self-sufficiency.

Comparing Neighborhood Revitalization Strategies

	NEIGHBORHOOD TRANSFORMATION	HEALTHY NEIGHBORHOOD
GOAL	Rebuild seriously distressed high-poverty neighborhood into new communities of choice with income diversity	Stabilize transitional neighborhood with attractive assets
STRATEGIES	Large scale, comprehensive revitalization leveraging existing assets and creating new ones	Engage residents, helping them leverage existing assets
MARKET	Current residents as well residents seeking housing in an attractive new community	Current residents as well as residents willing to invest time and energy in an upward trending neighborhood
TOOLS	Large, comprehensive, coordinated investments in acquisiton, predevelopment, development, and post-development	Investments in highly visible properties targetted for impact. Incentives to attract residents with resources to invest in the community

For these families, as currently structured, housing subsidies actually create disincentives that reduce workforce participation. As families earn more by working, a significant share of their additional pay must go toward rent. Families with jobs and Section 8 Housing Choice Vouchers may fear losing their housing assistance altogether. If they then find themselves out of work, they must return to the bottom of a long waiting list. By creating this type of disincentive, housing assistance often undermines labor force participation.[28] The two HUD efforts to increase work by allowing for more flexible rent rules and providing job training—JobsPlus and the Family Self-Sufficiency Program—have proven highly effective.* Unfortunately, these programs have not been implemented universally, and where they are in place, program quality varies greatly.[29]

D. CAPACITY BUILDING

If differentiation, targeting, and coordination form the legs of a three-legged stool, capacity is the seat upon which success rests. It is widely recognized that one of the fundamental challenges to long-term revitalization and stabilization in weak markets is the ability to initiate and sustain complex projects with long-term focus at the local level. While recent experience demonstrates that revitalization requires effective nonprofit organizations as well as city governments, the record also shows that midsize communities like the Gateway Cities have difficulty developing this capacity.

Over the last several decades, efforts to strengthen distressed neighborhood have often been driven by nonprofit community development organizations (CDOs), groups focused on affordable housing, retail and commercial development, job training, and support for

* HUD rules, which required families to pay 30 percent of their income as rent, create a strong disincentive to work. As a family's income increases, so does its rent. JobsPlus and the Family Self-Sufficiency program remove this disincentive. As families work more, increases in income that would go toward additional rent are diverted to escrow accounts. Families that complete the program can use these funds to pay for wealth-building assets such as education, a car, or a home.

small businesses. Federal housing policies helped create a niche for these organizations by reserving a portion of city and state block grants for community-based nonprofit developers.[30] Intermediaries like LISC and NeighborWorks America, national organizations that provide access to financial resources and technical assistance, have helped these frontline organizations build the capacity to undertake increasingly complex neighborhood revitalization projects.[31] Many cities now have a mature community development structure, with strong CDOs that have high-functioning relationships with national intermediaries, city and state governments, as well as private lenders and developers. Research shows that operating effectively within these networks, CDOs have been able to strengthen local housing markets and catalyze reinvestment.[32]

Unfortunately, the majority of Gateway City-sized places have not been able to evolve a strong community development infrastructure. In part, this is because CDOs in these cities have not received the same attention and commitment from national intermediaries.

Limited capacity in local governments has also been a common obstacle for CDOs. Cities control federal block grants, and often must contribute matching funds. Moreover, city governments are responsible for permitting and zoning, and control public land and the power of eminent domain. When capacity is lacking in city government, CDOs are much less likely to have success.

Too frequently, CDOs in midsize cities struggle to work effectively with local government simply because these places face much greater fiscal challenges that hamper the ability of city government to perform.[33] In part, this is because federal support to cities is awarded by population-based formula, and the cost of running cities in these increasingly complex times does not drop proportionate to size. At a minimum, this means midsize cities are under-resourced and deserving projects are put on hold. Often the problem is much deeper. With limited professional staff, it is much easier for a few small power centers to dominate city government. When this occurs, local government action may not reflect the best interests of the community.[34]

CDOs also struggle in smaller communities because they depend largely on fees from housing development. In these more resource-scarce settings, it is difficult to ensure the flow of fees needed to remain in business. Even with subsidies, in weak markets, thin margins reduce the range of projects nonprofit developers can undertake. This is truly unfortunate because CDOs serve many important functions in the community beyond housing development. They draw financial, human, political, and social capital to communities; they become important mobilizing agents that help forge local leaders and community solidarity; and they provide stability over time, as residents move or become less active.[35] In addition to making it more difficult for them to develop a sustain-

NEIGHBORHOOD TRANSFORMATION IN CLEVELAND

In 2006, The Cleveland Foundation partnered with leading anchor institutions, other local philanthropies, and community groups to launch the Greater University Circle Initiative. The Initiative is designed to stimulate new investment in the neighborhoods of Greater University Circle. This area is home to many of the city's wealthiest institutions, including the Cleveland Clinic, Case Western Reserve University, the University Hospitals, and the Veterans Administration Medical Center. Despite their proximity to these impressive institutions, the surrounding communities are among the most disadvantaged in the city — unemployment is high, educational attainment is low, and the housing is distressed.

The Cleveland Foundation has filled the important role as convener, generating the collaboration necessary to develop and implement an ambitious reinvestment strategy. Neighborhood Progress, Inc (NPI), a high-capacity citywide community development intermediary, is also a critical partner. Through a new subsidiary, Land Inc., NPI is assembling land for redevelopment.

In addition to housing and mixed-use development, the project will include a pre-k through eighth grade school and a new public library. An innovative economic inclusion strategy, which leverages the purchasing power of the city's anchor institutions to help build community wealth and create jobs for low- and moderate-income residents, is also a central component of the initiative. The strategy envisions building a network of employee-owned worker cooperatives in which each employee has an equity stake. These cooperatives, matched to the procurement needs of area anchor institutions, will include an industrial-scale "green" laundry, a solar collaborative which will own and install solar panels at anchor institutions, and a large-scale commercial year-round greenhouse that will sell produce to area hospitals and other institutions.

able business model, overreliance on housing development fees as a funding source creates adverse incentives to develop more housing.

Lack of capacity in city governments, and by extension their nonprofit partners, is particularly disappointing because federal policy for the last several decades has been to devolve much of the responsibility for housing and neighborhood revitalization to communities. The interconnected challenges local government and community-based organizations in midsize cities face building the infrastructure necessary for success clearly limits their ability to bring about neighborhood revitalization at the required scale.

III. Current Housing Policies and Their Impact on Gateway Cities

Rigorous evaluations of past efforts to stabilize and revitalize neighborhoods in weak market cities demonstrate the benefits of differentiated strategies, strategic targeting, comprehensive coordination, and capacity building. A review of Massachusetts housing programs in this context suggests substantial adjustments are needed to maximize the revitalization impact of state investment in Gateway Cities.*

Currently, Massachusetts housing policies are not structured specifically to address neighborhood challenges in weak market Gateway Cities. While these communities draw upon significant state resources to address neighborhood blight and improve housing quality, this funding has been designed primarily to increase the stock of affordable housing in strong markets. Reliance on only the available affordable housing resources limits neighborhood revitalization impact, which means less return on state investment. Fortunately, the state is beginning to recognize the dynamics of weak markets, tailoring new programs to meet some of the unique needs of Gateway City neighborhoods. Considerably more progress, however, will be required to put in places the policies necessary to catalyze redevelopment in these weaker markets.

Figure 1

2008 Massachusetts Housing Bond Bill by Activity

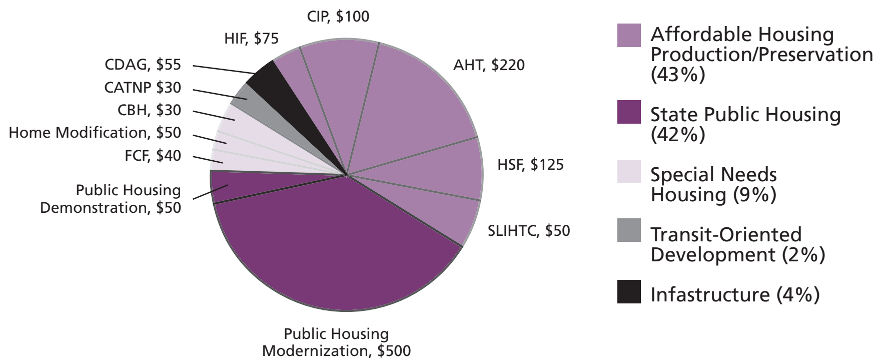


Table 5

Urban Renewal Grant Awards ($ millions)

CITY	PROJECT	YEAR	AWARD
Fitchburg	Downtown	2002	$12.6
Lawrence	Riverfront	1987	$11.8
Lowell	Acre	2002	$10.0
Pittsfield	Capitol Theatre	1996	$2.3
Springfield	Charles Hotel	1988	$0.5
Springfield	South End	1988	$0.5
Worcester	Medical City	1994/99	$43.1
Total			**$80.9**

Source: Massachusetts Department of Housing & Community Development

A. Massachusetts has no housing investment program structured specifically to meet the neighborhood revitalization needs of older urban areas. A review of the state's housing investment portfolio demonstrates a strong focus on affordable housing. The 2008 Housing Bond Bill, which established the state's capital investment plan for housing through 2012, allocates the majority of funds to support both state public housing (42 percent), and production and preservation of privately held affordable housing (43 percent). The bill also includes resources for spe-

* While federal housing and community development policies reflect a similar emphasis on strong market affordable housing, this section focuses primarily on Massachusetts policy, which state leaders can shape to both complement and drive innovation in federal programs.

Table 6

State Housing Production Resources

SOURCE	INCEPTION	USES	AFFORDABILITY PROVISIONS	PAST INVESTMENT IN GATEWAY CITIES[1]	2008 AUTHORIZ-ATION
Housing Stabilization & Investment Trust Fund (HSF)	1993	Rental, homeownership, downpayment assistance, acquisition, demolition	Home Ownership - 10 years for up to 135% of AMI (weak markets only); rental - 40 years below 80%	$27.1 million (18%)	$125 million
Affordable Housing Trust Fund (AHT)	2000	Rental & homeownership	30 years up to 110% of AMI	$24.9 million (16%)	$220 million
State Low-Income Housing Tax Credit (SLHTC)	1999	Rental	45 years 20% below 50% of AMI; or 40% below 60% of AMI	~$34.7 million (27%)	$50 million
Total State Investment				**$106.6 million (21%)**	**$480 million**

Source: MassINC's analysis of data from DHCD and MassHousing
[1] Past investment totals represent awards from the year of the program's inception through 2007.

cial needs housing (9 percent), limited funding for infrastructure associated with public development projects, and a small program to support transit-oriented housing development (Figure 1). While the bill did revise provisions of an affordable homeownership housing program designed to make this funding work more effectively in weak markets (described below), it does not include any program structured specifically to stabilize and revitalize distressed neighborhoods.

Massachusetts does have an Urban Renewal law designed to help communities create "the economic environment needed to attract and support private investment to achieve a balanced mix of housing, business and industry."[38] But the Urban Renewal Program has no dedicated resources. Funding for each project is approved by the legislature. This process does not provide the certainty required by private investors and critical for coordination with other resource streams. To date, the legislature has pledged funding for urban renewal in only six Gateway Cities, and more than half of these dollars went to a single project in Worcester (Table 5).

The absence of funding for neighborhood revitalization in cities with weak or distressed housing markets is partially attributable to resource scarcity. Adjusted for inflation, state spending on housing has fallen from $703 million in 1989 to $211 million in 2007—a 70 percent decline. Viewed as a percentage of total spending, funding for housing dropped 83 percent; from 2.9 percent of the budget in 1989 to 0.5 percent in 2007.[39] While the 2008 Housing Bond Bill, in response to rapidly escalating housing prices, outlined significant increases in capital spending, this plan was adopted prior to the current fiscal crisis, and represents commitments that may prove difficult to honor.

The last two decades of limited state housing resources corresponded with a time of increasing need. The many competing demands for housing funds have included:

- Maintaining an aging public housing stock suffering from decades of neglect;
- Providing shelter and services for a growing homeless population; and
- Preserving a large number of affordable housing developments with expiring rent/income restrictions.

Over the last decade, rapidly escalating housing costs have intensified these challenges. Rising costs increase homelessness and make producing affordable housing more expensive. At the same time, appreciation adds fuel to the preservation fires by encouraging more owners to convert to market rate.

In this difficult environment, the state has pursued two strategies. One tactic has been inclusionary housing laws like Chapter 40B, which cross-subsidize affordable units with market-rate development. This creates units affordable for moderate-income families without subsidy. The second strategy has been to reserve housing resources to serve the poorest of the poor, which prioritizes public spending for those with the greatest need.

This is a practical and innovative solution in an age of limited public resources; however, without providing tools to revitalize weak markets, it is unbalanced. Over time, affordable housing subsidies may further concentrate poverty in these cities, where projects affordable for very low-income households are most often built, while inclusionary housing constructed in strong markets may reduce demand among moderate-income families that might otherwise lead to reinvestment in the state's weaker Gateway City markets.

B. Gateway Cities rely on affordable housing resources for neighborhood revitalization and receive a significant share of this state investment.

Without access to resources structured specifically to stabilize and revitalize weak market neighborhoods, Gateway Cities pursue redevelopment projects with affordable housing funds because these subsidies are the only way to remedy abandonment and blight.

A review of spending from the state's housing programs shows that Gateway Cities have drawn about a fifth of resources from the major affordable housing production programs. This amounts to more than $100 million in investment since the early 1990s (Table 6).[40]

These state funds have also leveraged millions more in federal investment. While the state is constrained in how it uses these federal resources, as Peter Gagliardi argued in an important 2006 White Paper published by the Pioneer Institute, Massachusetts is generally more restrictive in how these funds are applied to development than federal regulations require.[41]

Much of this public investment supports preservation of existing affordable housing stock. These resources recapitalize projects with additional subsidy to maintain and renovate older units. Preservation efforts are essential to prevent foreclosure that could lead to additional vacant properties or buildings falling into the hands of economically motivated owners, who too often extract profits in these weak markets by under-managing their properties.

However, the larger share of state spending is devoted to production of affordable units. Between 2003 and the first half of 2008, approximately 70 percent of state funds administered by the Department of Housing and Community Development (DHCD) went to production. This spending created more than 1,500 affordable units in Gateway City markets.*

The impact of adding this supply in Gateway Cities is debatable. On the one hand, there is certainly a shortage of *quality* affordable units, and spread across 11 cities 1,500 units may not seem that large. On the other hand, the units do add significantly to the localized neighborhood markets where they are placed, and may add to further blight in these areas by reducing demand for older homes. Moreover, these investments represent not just scarce funds, but also the scarce capacity of the state's housing and community development professionals.

C. The state's housing investment in Gateway Cities has not been structured to stimulate neighborhood revitalization.

When developing new housing in Gateway Cities with programs designed to create permanently affordable housing for low-income families, it is difficult to strategically target resources and coordinate them comprehensively. Moreover, the form of development that results from affordable housing investment is unlikely to transform the most distressed neighborhoods, which is where these investments are often made. By concentrating more poor families in high-poverty neighborhoods, public spending may even exacerbate the challenges in weak Gateway City housing markets.

State programs focused on affordability have not been organized to strategically identify neighborhoods where public spending will generate large neighborhood revitalization returns. Instead, these programs add units where there is opportunity (i.e., vacant land, structures suitable for adaptive reuse, accommodating communities). While in some cases state funding supports carefully tailored community-driven neighborhood revitalization projects, the state does not require that its investments in weak market cities go toward projects that strategically target resources consistent with long-term revitalization plans.

From a weak market perspective, the state's current housing programs also do not facilitate strategic coordination with an emphasis on neighborhood revitalization. For affordable housing developers, assembling resources from various funding sources provides enough complication. Unlike most states, Massachusetts has an independent housing finance agency (MassHousing) that oversees some funding streams, while the political housing and community develop-

* This 1,500 unit total includes new construction, adaptive reuse, and rehabilitation. Limitations in the available data make it difficult to obtain a firm estimate of units provided through new construction and adaptive reuse that are entirely new to the market. A list of these projects is provided in the Appendix.

ment agency (DHCD) manages another set of programs, and still others are handled by a patchwork of public nonprofit agencies (CEDAC, MHP). In this environment, it could be difficult for developers to coordinate and sustain efforts across an even broader spectrum of agencies, as a large-scale neighborhood transformation project would require.

The form of development produced under the current policies in weak markets is another critical issue. A primary aim of neighborhood revitalization is to promote private investment by creating housing opportunities that appeal to an economically diverse mix of residents. Unfortunately, developers have little incentive to take on the complexity and risk associated with mixed-income projects.

Most projects in weak markets will have difficulty producing the cash flow to cover construction costs. Because current affordable housing development funds require income restrictions on each unit receiving public subsidy, when project expenses are broken down on a per unit basis, projects generally require subsidy such that all of the units end up with income restrictions. Even in neighborhoods where market rate rents are close to covering costs, developers often find it easier to simply build an all-affordable product and avoid the uncertainty and complication of marketing and managing a mixed-income property. Between 2003 and the first half 2008, the state supported 50 housing production projects in Gateway Cities. More than half of all units were restricted for affordable housing in 46 of these projects; 39 projects were 100 percent affordable.

While these projects restored blighted and abandoned properties, and clearly demonstrate the state's commitment to (and are often cited as examples of) neighborhood revitalization, studies nationally provide little evidence that this type of affordable housing development transforms markets and catalyzes reinvestment.[42] To the contrary, studies suggest creating additional affordable housing in lower-income communities can have the opposite effect. In weak markets, new affordable development can draw families away from the existing housing stock, increasing blight and abandonment, further depressing home values in the surrounding area. Methodological challenges make it difficult to estimate these effects precisely, but studies in weak market cities like Cleveland, Milwaukee, and Philadelphia consistently find that adding additional units of affordable housing in distressed neighborhoods accelerates decline.[43]

Studies that single out Massachusetts for a tendency to locate affordable housing in these distressed neighborhoods give rise to concern that state investments may be having these unintended consequences in Gateway Cities. A 2004 Brookings Institution report found that 67 percent of Low-Income Housing Tax Credit developments in Springfield were located in high-poverty neighborhoods. Among the 100 largest metropolitan areas covered in the study, Springfield had the highest concentration of LIHTC developments in high-poverty neighborhoods. In New Orleans, the region with the second highest concentration, the comparable figure was drastically lower at just 44 percent.[44] Another recent study of federal Low-Income Housing Tax Credit projects ranked Massachusetts forty-eighth in siting affordable developments for families in Census Tracts with low-poverty rates, and forty-ninth in locating these developments in Census Tracts with a low percentage of minorities.[45]

MassINC reviewed the same federal Low-Income Housing Tax Credit data looking at Gateway Cities. This analysis shows that thousands of new family units have been added in extremely high-poverty neighborhoods in these communities (Table 7). Between 1995 and 2003,

Table 7

Average Neighborhood Poverty Rate for Family LIHTC Projects, 1995-2003

CITY	# OF UNITS	AVERAGE POVERTY RATE
Brockton	722	12%
Fall River	310	22%
Haverhill	30	24%
Holyoke	702	43%
Lawrence	36	27%
Lowell	1,024	30%
New Bedford	189	32%
Pittsfield	164	20%
Springfield	1,630	38%
Worcester	1,052	31%
Total	**5,859**	**31%**

Source: MassINC's analysis of US Dept. of Housing & Urban Development data in Springfield, more than 1,600 units were built in Census Tracts with poverty rates that averaged 38 percent; in Holyoke, the LIHTC produced over 700 units in neighborhoods with poverty rates averaging over 43 percent; more than 1,000 units were built in Worcester in tracts with poverty over 30 percent.

A review of more recent Gateway City production projects supported by DHCD between 2003 and the first half of 2008 shows a similar trend. Together these investments, representing $59 million in state spending and leveraging another $18 million in federal spending, provided more than 1,500 new units in Gateway City neighborhoods with poverty rates averaging over 30 percent (Appendix).

While these projects many not spur revitalization, there is a case to be made that they have prevented further deterioration in neighborhood housing stock. In the absence of tools to catalyze market building reinvestment, in many Gateway Cities, housing and community development agencies have deftly used public resources to stabilize key properties, while simultaneously reducing the most distressed housing with selective demolition. Both the Low-Income Housing Tax Credit and state resources have been critical in this regard. However, moving toward a strategy focused on rebuilding strong communities where families with a choice will choose to live clearly requires complementary tools that offer community development practitioners the ability to finance mixed-income projects.

D. New programs and policies are beginning to address the need to strengthen Gateway City housing markets, but to date, these advances represent relatively modest achievements.

Massachusetts is making strides in each of the four areas critical to an effective Gateway City housing policy—differentiated programs, strategic targeting, comprehensive coordination, and capacity building. While these efforts are valued, much more substantial reform will be required to catalyze redevelopment in Gateway City neighborhoods.

Massachusetts is making strides in each of the four areas critical to an effective Gateway City housing policy.

With the 2008 Housing Bond Bill, the legislature took a first step toward differentiating the state's housing policies by adjusting the length of deed restrictions on homeownership developments funded by the Housing Stabilization and Investment Trust Fund.

In the past, buyers were reluctant to purchase properties with deed restrictions that included resale formulas, which limited the appreciation families could realize when they sold their homes. These deed restrictions are critical in strong markets to preserve affordability for the next family, and prevent families from profiting from public subsidy. Families with limited means living in strong markets are much more willing to accept less appreciation in exchange for quality homes at prices below prohibitive market rates. In Gateway Cities, however, there is already a large supply of low-cost homes, which makes it both less crucial to protect long-term affordability and unlikely that families could resell properties and reap an immediate payoff from the public investment.

The 2008 bond bill responded to these realities by reducing deed restrictions to 10 years and increasing eligibility up to 135 percent of area median income in weak markets. In addition, the legislation specifically set aside $10 million for homeownership housing in weak markets, and authorized DHCD to take other steps necessary to promote homeownership in these areas. It will be important to monitor whether these new resources are invested strategically to generate a revitalization impact in these communities.

There are other signs that the state is beginning to develop a deeper understanding of regional housing markets in order to differentiate policies. Last year DHCD commissioned a statewide housing market analysis. Unfortunately, this report still made no mention of concentrated poverty or unstable neighborhoods vulnerable to disinvestment. The primary focus was affordability challenges reflected in regional variation in measures of housing cost burden.[46]

Along the three other critical dimensions for a successful weak market strategy—targeting, coordination, and capacity building—the state is also making progress.

In September 2008, the Patrick Administration announced **Gateways Plus Action Grants**. These funds support revitalization planning efforts leading to vibrant mixed-income neighborhoods. The administration is also building on the Gateways Plus Action Grants with a new **Communities Count Initiative**. Supported in part with funding from the federal stimulus, this program introduces new youth and workforce development efforts to areas where neighborhood revitalization planning is underway with support from a Gateways Plus Action Grant. In combination, these new initiatives provide an example of how the state can facilitate both strategic targeting and comprehensive coordination. Without legislative action, however, it will be difficult to identify sustainable funding to see these efforts through.

There are several other examples of both strategic targeting and comprehensive coordination taking place in Gateway Cities with state assistance. The state has been partnering with communities to develop **Employer Assisted Housing** (EAH) programs. In Worcester, for example, DHCD and the Massachusetts Housing Partnership joined UMass Memorial Medical Center and the East Side Community Development Corporation to provide down payment and other forms of assistance to hospital employees in the Bell Hill and East Side neighborhoods. EAH is one useful tool that can help stabilize transitional neighborhoods by targeting homeownership efforts in these areas. The state has also developed the **Gateway Cities Parks Program**. Parks are a valuable neighborhood asset that should be incorporated in comprehensive redevelopment efforts. However, it is still unclear how this program will be coordinated within a neighborhood revitalization framework.

Table 9

Community Development Capacity

CITY	# OF CHDOS	RESIDENTS PER CHODO
Boston	11	53,706
Brockton	0	-
Fall River	0	-
Fitchburg	2	20,025
Haverhill	0	-
Holyoke	1	39,765
Lawrence	2	35,331
Lowell	2	51,615
New Bedford	0	-
Pittsfield	1	43,497
Springfield	2	75,588
Worcester	5	35,091
Gateway Cities	14	68,729

Source: Author's analysis of data from DHCD

In two areas particularly critical to Gateway City revitalization—schools and workforce development—Massachusetts has yet to develop a focus. While school-centered neighborhood revitalization has not received much attention in the urban school reform conversation, there are two important new openings to pursue these projects. The Patrick administration's legislation lifting the charter school cap in underperforming districts provides one avenue for introducing schools as a focal point of neighborhood redevelopment efforts. The Massachusetts School Building Authority, created in 2004 and tasked with reducing the costs of new schools, may offer another interesting pathway toward school-centered neighborhood revitalization.

State government is also beginning to tie housing assistance to work supports in ways that would help strengthen Gateway City neighborhoods. Currently, HUD's Family Self-Sufficiency Program (FSS) has been implemented unevenly across the 11 Gateway Cities. Brockton, has had some success, with 46 former public housing residents purchasing homes and transitioning out of public housing through participation in the program. But across the 11 cities, program adoption and design is different in each community and the experiences have been uneven. Just 272 Gateway City residents receiving housing assistance participate.[47] Recently, the Massachusetts Asset Development Commission emphasized the need to strengthen FSS programs across the state.[48]

The state has already taken an important first step to using housing support to help families improve their economic position. In June 2008, DHCD signed an agreement to expand the state's participation in HUD's Moving to Work demonstration program. Massachusetts now has the ability to waive certain statutes and HUD regulations in order to help more than 18,000 holders of Housing Choice Vouchers, virtually the state's entire portfolio, move toward greater economic self-sufficiency.[49]

Finally, there is the issue of capacity building. A working group recently assembled by DHCD to explore opportunities to strengthen the state's efforts in Gateway Cities placed significant focus on limited and uneven nonprofit capacity. While it is difficult to quantify capacity, the number of certified Community Housing Development Organizations (CHDOs) in each city provides one rough measure. The state, along with cities receiving federal HOME funds, certify CHDOs according to HUD standards. Organizations must demonstrate that they have the experience, staff capacity, and financial accountability to undertake housing development. Currently, 14 CHDOs operate in Gateway Cities (Table 9). Four cities have no CHDOs, while five cities have more than one.

CHDO certification speaks to an organization's ability to carry out a project, but these numbers provide no real indication of actual capacity to drive neighborhood change. In Gateway City-sized communities, a single high-performing nonprofit organization can have large impact.

Given increasing resource scarcity, there are strong arguments for a focus on ensuring all Gateway Cities are served by a strong nonprofit as opposed to helping to merely increase the number of nonprofits operating in these communities. Discussions currently underway focused on promoting efficiency by consolidating the large number of community development organizations operating statewide may reveal new opportunities to increase coverage in underserved Gateway Cities.[50]

GATEWAY CITY REDEVELOPMENT PRINCIPLES

Efforts to enhance the state's approach to weak market neighborhood revitalization should conform to the following three principles:

1. Redevelopment in Gateway Cities that increases economic diversity should not lead to displacement of lower-income residents. Massachusetts must grow its cities to develop more sustainably. Economic diversity can be achieved by rebuilding a market for middle-income residents without displacing lower-income families.

2. The state's limited affordable housing resources should provide affordable housing. Affordable housing investments in Gateway Cities are necessary now to preserve affordability as the state pursues strategies to stimulate demand for housing. As a component of revitalization strategies, however, every effort should be made to coordinate affordable housing investment with targeted neighborhood revitalization projects.

3. Lower-income families should benefit from revitalization. Innovative and aggressive economic inclusion strategies are needed to ensure low-income families benefit directly and immediately from reinvestment catalyzed with public resources.

IV. Toward a Comprehensive Gateway City Neighborhood Reinvestment Strategy

The major budgetary imbalance that Massachusetts faces today is likely to continue into the foreseeable future. These increasingly competitive times make it more imperative than ever that public investment advance the state's long-term economic position. Massachusetts is a leader in housing, with a robust delivery system for affordable housing development, housing policies that are among the most innovative in the nation, and skilled practitioners with deep community development knowledge and experience. By retooling state housing policies to address weak markets, and helping propel similar innovation at the federal level, the Commonwealth can take another step forward, making Gateway Cities and their regions more productive, their residents more successful, and the state's growth more efficient.

MassINC offers the following recommendations for leaders working to develop a comprehensive Gateway City neighborhood reinvestment strategy:

1. Transform distressed neighborhoods into healthy mixed-income communities. Help Gateway Cities plan and facilitate large-scale revitalization projects in neighborhoods where there are opportunities to build a market for mixed-income development by:

- *Creating a transferable tax credit to support mixed-income redevelopment with mechanisms to recapture the state's patient equity investment.* For example, successful projects might generate returns from a three-way split—revenue from a Tax Increment Financing District, from developer profit over a threshold, and from homeowner profit over a threshold.

- *Supporting capacity both in local government and in nonprofits.* Offer challenge grants to cities that build the planning and project management staff to carry out complex revitalization efforts. Help local nonprofits with a proven track record develop stronger balance sheets. Explore opportunities to support nonprofit partnerships and networks to balance out disparities in capacity across cities.
- *Engaging institutional, nonprofit, and philanthropic partners to develop economic inclusion strategies.* Innovative efforts to help current residents build wealth should form a central component of all comprehensive neighborhood revitalization efforts.

2. Develop a "Healthy Neighborhoods" approach to transitional areas. Help Gateway Cities rebuild strong middle class neighborhoods by:

- *Providing incentives and protection to families taking a chance on a revitalizing neighborhood.* Explore the potential of a number of products for owner-occupants performing substantial rehabilitation in targeted transitional areas including low-interest loans, forgivable after a period of time; an extension of the state historic tax credit to owner-occupants; and home value protection to hedge against the risk of declining neighborhood values.
- *Offering technical assistance for housing rehabilitation to owner-occupants in targeted transitional areas.* With financial support, existing intermediaries such as Preservation Mass or the Architectural Heritage Foundation could provide these services in Gateway Cities to complement new state incentive programs.
- *Developing a marketing and communications strategy.* With incentives and assistance in place, efforts will be needed to make prospective owners aware of these unique opportunities in revitalizing Gateway City neighborhoods.

3. Aggressively target, coordinate, and evaluate to catalyze reinvestment in Gateway City neighborhoods. Support efforts to revitalize distressed neighborhoods and stabilize transitional areas by:

- *Strategically targeting funding.* Target state resources and provide cities with incentives to target local resources including CDBG, HOME, and other funds in areas with revitalization strategies.
- *Coordinating investment in Gateway Cities with neighborhood revitalization plans.* Place particular focus on school-centered neighborhood revitalization; make investments in quality-of-life amenities like parks and recreational facilities; provide small business assistance to strengthen neighborhood retail districts; support resident asset-building efforts through initiatives like DHCD's Moving to Work family self-sufficiency program.
- *Developing data infrastructure to aggressively monitor housing markets.* Assemble data to monitor local markets to strategically inform state and local investment decisions and evaluate the impact of public investments in targeted neighborhoods.

4. Advocate for Gateway Cities at the federal level. Engage the federal government to develop tools to facilitate weak market neighborhood revitalization by:

- *Supporting efforts to create a more flexible federal Low-Income Housing Tax Credit.* Differentiated to the needs of weak markets, the tax credit could provide equity investment for mixed-income projects that create affordable housing while stimulating reinvestment.
- *Pressing for a federal income tax credit for families purchasing and rehabilitating homes in targeted neighborhoods.* Mortgage credit certificates (MCC) could provide families with incentives to purchase in revitalizing neighborhoods if current provisions, which force states to substitute MCCs for Low-Income Housing Tax Credits, were removed.
- *Backing set asides for midsize city demonstrations in the new Choice Neighborhoods funding.* HOPE VI spending disproportionately benefited large cities with strong markets. In crafting this new program, Congress should ensure midsize cities have opportunities to compete.
- *Promoting the Moving to Work Demonstration program and associated Section 8 voucher reform legislation (SEVRA).* SEVRA would give states greater ability to use housing support as a step toward self-sufficiency. However, to be impactful as opposed to punitive, the bill must fund employment-related programs that allow housing agencies to provide services proven to support work.

APPENDIX A

MA Department of Housing and Community Development Production Projects, 2004 – First Half of 2008

CITY	PROJECT NAME	POV. RATE (TRACT)	AFFORDABLE UNITS	TOTAL UNITS	STATE INVESTMENT	FEDERAL INVESTMENT
BROCKTON	Work Express Housing	42%	31	32	$2,750,000	$0
FALL RIVER	St. Dominic Apartments	22%	18	18	$1,250,000	$0
FITCHBURG	470 Main Street	10%	8	31	$1,100,000	$400,000
	Academy Street Development	21%	7	7	$330,000	$0
	Anwelt Heritage Apartments	29%	70	86	$0	$1,000,000
	Harmony House	24%	13	13	$275,000	$0
HAVERHILL	Murray Court	24%	21	21	$1,740,080	$0
	Walnut Street Apartments	24%	61	146	$3,127,151	$1,428,400
HOLYOKE	Mont Marie Senior Residences	21%	49	50	$2,000,000	$0
	St. Joseph Residence at Mont Marie	21%	30	31	$1,500,000	$600,000
LAWRENCE	Blakeley Building	48%	46	46	$1,939,409	$641,700
	Farnham Court	28%	11	11	$550,000	$0
	Scarito Homes	27%	10	10	$254,473	$620,274
	Union & Mechanic Homes	48%	5	5	$178,803	$250,000
LOWELL	Boott Mills Apartments (East Mills)	33%	32	154	$2,010,000	$0
	DYouville Elderly Housing (Phase II)	6%	41	42	$1,744,895	$0
	DYouville Senior Living (Phase I)	6%	22	22	$602,500	$0
	Saint Joseph's School Apartments	36%	15	15	$980,000	$222,750
NEW BEDFORD	Acushnet Commons	27%	12	12	$0	$717,400
	Coffin Lofts	37%	11	18	$0	$550,000
	Lawton's Corner	37%	9	17	$450,000	$450,000
	Sean Brook House	13%	19	19	$3,557,792	$0
	United Front Homes - Phase I	27%	67	67	$2,400,000	$1,098,711
	United Front Homes - Phase II	27%	111	115	$8,347,692	$1,300,000
	Whaler's Place	27%	75	75	$1,876,500	$999,000
PITTSFIELD	Berkshire Veterans Village	10%	39	39	$2,644,260	$720,000
	Gamwell Ave.	10%	6	6	$569,999	$0
	New Amsterdam	26%	67	67	$750,000	$1,779,969
SPRINGFIELD	High Street Commons Apartments	46%	55	67	$700,000	$1,342,000
	Jefferson Park Apartments	63%	31	31	$0	$966,865
	Liberty Heights	50%	3	4	$140,000	$0
	Old Hill / Eastern Avenue	39%	3	3	$0	$150,000
	Old Hill Neighborhood Revitalization	39%	6	6	$300,000	$0
	Old Hill Neighborhood Revitalization - Group 2	39%	8	8	$564,500	$0
	Springfield Neighborhood Revitalization Phase II	-	10	10	$709,000	$0
	Spruce Green	46%	7	7	$280,000	$0
WORCESTER	Beacon Street	40%	8	8	$0	$400,000
	Bell Hill Home Ownership-Phase 3	40%	14	14	$1,400,000	$0
	Bell Hill Homeownership - Phase 4	30%	8	8	$760,000	$0
	Belmont Street	30%	10	10	$985,843	$0
	Cambridge Street Condominiums	31%	10	12	$420,000	$0
	Crown Hill Homeownership Project	34%	9	9	$715,000	$0
	Hadley Building Apartments	29%	40	44	$1,543,929	$232,667
	Homes for Union Hill Homeownership Initiative	28%	6	6	$400,000	$0
	Homes for Union Hill II	28%	6	6	$452,048	$0
	Kilby Gardner Hammond	40%	10	25	$720,000	$0
	May Street	29%	46	46	$2,500,000	$724,500
	Piedmont Street	38%	12	12	$1,558,104	$0
	Southgate Place	31%	19	25	$1,146,430	$1,143,750
	Village at Ascension Heights	17%	35	36	$500,000	$0
	All Projects	**30%**	**1,262**	**1,572**	**$58,723,408**	**$17,737,986**

Notes

[1] Edward Glaeser and Joseph Gyourko, "Urban Decline and Durable Housing," *Journal of Political Economy* 113(2) (2005).

[2] See David Boehlke, "Great Neighborhoods, Great City," (Baltimore, MD: Goldseker Foundation, 2001); and "Vacant Properties: The True Costs to Communities," (Washington, DC: National Vacant Properties Campaign, 2005).

[3] FMRs represent the 40th percentile rent of standard, non-subsidized housing units in which the occupant has taken up residency within the last 15 months.

[4] See Glaeser and Gyourko (2005). Falling prices attract the poor relatively more than those with greater income. Residents not participating in the labor force are particularly drawn to less expensive housing in declining neighborhoods because they do not experience a wage loss associated with living in a declining city.

[5] Concentrated poverty is said to "magnify" the effects of poverty because research shows social and economic outcomes for families living in these settings are lower than individual characteristics and circumstances would dictate. For a full review of this literature, see Alan Berube, "Concentrated Poverty in America: An Overview," in *The Enduring Challenge of Concentrated Poverty in America*, David Erickson and others, Editors, (Washington, DC: Federal Reserve System, 2008.)

[6] Larry Hugick and others, "A Generation in Transition: A Survey of Bay State Baby Boomers," (Boston, MA: MassINC, 2005).

[7] Mark Muro and others, "Reconnecting Massachusetts Gateway Cities: Lessons Learned and an Agenda for Renewal," (Boston, MA: MassINC, 2007).

[8] Gerald Carlino and others, "Knowledge Spillovers and the New Economy of Cities," *Federal Reserve Bank of Philadelphia Working Paper 01-14* (2001); Saskia Sassen, "The Global City: Introducing a Concept," *Brown Journal of World Affairs* 11(2) (2005).

[9] Antonio Ciccone and Robert Hall, "Productivity and the Density of Economic Activity," N*BER Working Paper W4313* (1996).

[10] David Soule and others, "The Rebirth of Older Industrial Cities: Exciting Opportunities for Private Sector Investment," (Boston, MA: Center for Urban and Regional Policy, 2004).

[11] Janet Pack analyzed data on Atlanta, Newark, Seattle, and Indianapolis. See Janet Pack, "Poverty and Urban Public Expenditures." *Urban Studies* 35(11)(1998): 1995–2019. Southern California data are analyzed in Joassart-Marcelli. See Pascale Joassart-Marcelli and others, "The Fiscal Consequences of Concentrated Poverty in a Metropolitan Region." *The Annals of the Association of American Geographers* 95(2)(2005): 336–356.

[12] Alberto Alesina and others, "Public Goods and Ethnic Divisions," *Quarterly Journal of Economics* 114(4) (1999).

[13] Marilyn A. Brown, Frank Southworth, and Therese Stovall, "Towards a Climate-Friendly Built Environment" (Washington, DC: Pew Center on Global Climate Change, 2005).

[14] For example, among the largest 100 metros, Greater Springfield ranks 85th in the efficiency of per capita residential energy use. Heating and cooling homes in Springfield requires a third more energy than Las Vegas, and double the energy of Phoenix. Including energy expended for transportation, Greater Springfield still lags behind Phoenix and Las Vegas by approximately 20 percent in overall energy use. The relatively compact growth patterns of these Western regions suggest that these areas will continue to gain. Between 1982 and 1997, the Phoenix population grew by 73 percent, and growth in urbanized land increased by 42 percent; over this same period Greater Springfield, where population grew by only 5 percent, consumed the same volume of land. See Marilyn Brown and others, "Shrinking the Carbon Footprint of Metropolitan America," (Washington, DC: Brookings Institution, 2008); William Fulton and others, "Who Sprawls Most? How Growth Patterns Differ Across the US," (Washington, DC: Brookings Institution, 2001).

[15] *The Report of the Bipartisan Millennial Housing Commission*, (Washington, DC: 2002).

[16] For example, see Allan Mallach, "Building a Better Future: New Directions for Housing Policies in Weak Market Cities," (Montclair, NJ: National Housing Institute, 2005).

[17] Paul Brophy and others, "Retooling HUD for a Catalytic Federal Government," (Philadelphia, PA: Penn Institute for Urban Research, 2009). For example, in reference to CDBG, the memo recommends: Reforming the CDBG program to allow funding for neighborhood improvement based on market conditions in the neighborhood. The use of CDBG funds should be based on the premise that it is equally valid public policy to attract middle-income people to weak neighborhoods as it is to protect the interests of low-income people via more affordable housing in strong market neighborhoods.

[18] Bruce Katz, "Neighborhoods of Choice and Connection," (Washington, DC: Brookings Institution, 2004).

[19] See Jennifer Turnham and Jessica Bonjorni, "Review of Neighborhood Revitalization Initiatives," (Cambridge, MA: Abt Associates, 2004); Boehlke (2001).

[20] The Reinvestment Fund, for example, has developed a Market Value Analysis for Baltimore, Camden, Philadelphia, and Washington. They recently introduced PolicyMap, an online product that allows communities to access over 4,000 relevant variables.

[21] George Galster and others, "Measuring the Impact of Community Development Block Grant Spending on Urban Neighborhoods," *Housing Policy Debate* 15(4) (2004).

[22] John Accordino and others, "The Impacts of Targeted Public and Nonprofit Investment on Neighborhood Development," (Richmond, VA: Federal Reserve Bank of Richmond, July 2005).

[23] Dale Thomson, "Strategic Geographic Targeting of Housing and Community Development Resources: A Conceptual Framework and Critical Review," *Urban Affairs Review* 43 (5) (2008).

[24] Thomson (2008).

[25] Jennifer Turnham and Jill Khadduri, "Integrating School Reform and Neighborhood Revitalization," (Cambridge, MA: Abt Associates, 2004).

[26] "HUD FY 2010 Budget Summary: Road Map for Transformation," (Washington, DC: US Department of Housing and Urban Development, 2009).

[27] *The Report of the Bipartisan Millennial Housing Commission*, (Washington, DC: 2002)

[28] Edgar Olsen and others, "The Effects of Different Types of Housing Assistance on Earnings and Employment,' *Cityscape* 8(2) (2005); Brian Jacob and Jens Ludwig, "The Effects of Means-Tested Housing Assistance on Labor Supply," NBER Working Paper 14570 (2008).

[29] Howard Bloom and others, "Promoting Working in Public Housing: The Effectiveness of Jobs-Plus," (New York, NY: MDRC, 2005).

[30] Cities and states must award 10 percent of federal LIHTCs and 15 percent of federal HOME funds to community-based nonprofits.

[31] Christopher Walker, "The Effect of the National Community Development Initiative on Community Development Systems," (Washington, DC: The Urban Institute, 2002).

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37 See Elisabeth Prentice, "NeighborWorks America Home HeadQuarters, Inc. Home Value Protection: Final Report," (Washington, DC, NeighorWorks America, 2005); and Andrew Caplin and others, "Home Equity Insurance: A Pilot Project," Yale ICF Working Paper No. 03-12 (2003).

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For more information:
Benjamin Forman | Senior Research Associate | MassINC | 617.224.1652 | bforman@massinc.org

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18 Tremont Street, Suite 1120
Boston, MA 02108

www.massinc.org