Metropolitan Housing and Communities Center

# The Uncharted, Uncertain Future of HOPE VI Redevelopments

## The Case for Assessing Project Sustainability


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With support from
The John D. and Catherine T. MacArthur Foundation

July 2009

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# I. Introduction

The HOPE VI program—administered since 1992 by the U.S. Department of Housing and Urban Development (HUD)—has generally been effective in supporting the demolition of many of the largest, most dilapidated, and highly concentrated public housing developments in the nation and replacing them with smaller-scale, visually more appealing, mixed-income properties. Public investment in HOPE VI has been substantial; the private investment has been even greater. While the importance of a program that redevelops dilapidated and obsolete housing is generally acknowledged, more than a decade and a half after the program's initiation it is not a foregone conclusion, or otherwise obvious, that properties redeveloped under it can be sustained over time.

Sustainability is not simply a function of the redevelopment underwriting or financing that is utilized or the architectural attractiveness of the buildings that result, but also of significant challenges inherent in the program. The latter derive from the public-private relationships that are involved and the mixed-income and mixed-tenure character of the redevelopments. These features are, on the one hand, program strengths but, on the other, challenges to project management and financial stability. As such, a proper third-party assessment of HOPE VI redevelopments is essential to identification of sustainability obstacles—before they become intractable and a public liability. Given the features of HOPE VI, the appropriate question is not whether a sustainability assessment is needed but how it should be done.

> "The appropriate question is not whether a sustainability assessment is needed but how it should be done."

With support from the John D. and Catherine T. MacArthur Foundation, the Urban Institute informally partnered with the University of Maryland's Graduate Programs in Real Estate Development to consider the assessment challenge. Based on input from housing practitioners and insight gained from a trial exploration of the experiences of two redeveloped properties, this report presents the case for developing and initiating an independent, third-party assessment of redeveloped HOPE VI properties as a way to help their owners and public agencies sustain this valuable resource.

* The authors gratefully acknowledge: the research assistance of Liza Getsinger, Kassie Dumlao and Laura Pryor; the information, advice and support provided by those who participated in roundtable, stakeholder, and interview sessions related to this report; and the support provided by Michael Stegman and Erika Poethig of the MacArthur Foundation.

# II. Background

Between 1993 and mid-2007, 236 distressed public housing developments located in 127 communities in 34 states, the District of Columbia and Puerto Rico have received HOPE VI grants to effect redevelopment.[1] Presently they are at various stages of transition—ranging from those that are fully constructed and have been operational for a number of years to those where nothing has yet been started, and many stages in between from relocation underway to just having accomplished demolition, just having financing closed, just having started construction, or just having been completed.

The proportion of the public housing inventory affected by the HOPE VI program is substantial—about 10 percent.[2] In all, over 96,000 public housing units have already been, or are planned to be, demolished. These have or will be replaced by about 111,000 new and rehabilitated units—both rental and homeownership. Replaced units look very different from those demolished. Slightly more than one-half of them will consist of deeply subsidized public housing, with the remainder having either a shallower subsidy or being at market rates. In contrast to the original developments that consisted entirely of deeply subsidized public housing units occupied by low- or very-low income households, only 10 percent of redeveloped or planned-to-be redeveloped units are in complexes consisting exclusively of public housing; 49 percent are in developments with an equal or majority (ranging from 50 to 99 percent) share of public housing units; and 41 percent are in complexes with less than a one-half share of public housing.

Expenditures for the HOPE VI program have also been substantial. As of September 2008, $5.5 billion of HOPE VI grant funds had been approved. Total investment costs are considerably higher—over $16 billion.[3] Monies leveraged by HOPE VI grants consist to some extent of other public housing and federal government program outlays but, mostly, of funds from private, state and local government sources—including, for example, program funds from Community Development Block Grants and the HOME Investment Partnership, and the equity value provided by Low Income Housing Tax Credits (LIHTCs).

**Program objectives.** The initial and primary objectives of the HOPE VI program involved physical replacement of severely distressed public housing, deconcentration, and downsizing. Over time, however, the program evolved to include a more expansive set of objectives,[4]

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[1] These figures are based on the latest data posted on HUD's website. The first appropriation for HOPE VI occurred on October 6, 1992; the program was authorized for the first time in 'FY 1999 through the Quality Housing and Work Responsibility Act of 1998. See: http://www.hud. gov/offices/pih/programs/ ph/hope6/grants/ revitalization/ rev_grants_all.pdf and http://www.hud.gov/ offices/pih/ programs/ ph/hope6/about/fundinghistory.pdf., last accessed March 27, 2009.

[2] These September 2008 data, which are more recent than the latest 2007 report on HUD's website, are courtesy of G. Thomas Kingsley, the Urban Institute. They are derived from a management information system used by HUD staff to monitor the HOPE VI program.

[3] This has been calculated by HUD.

[4] See Harry J. Wexler, "HOPE VI: Market Means/Public Ends," Yale School of Management*, Journal of Affordable Housing and Community Development Law*, Vol. 10, No 3 (Spring 2001) for a brief history of the HOPE VI program and an outline of the various purposes that the Congress (through enactment of annual appropriations bills) and HUD (through annual issuance of Notices of Funds Availability, NOFAs) have established for it. Program purposes have broadened since HOPE VI was created on October 6, 1992 through an appropriations bill (known as the 1993 Appropriations Act). It was initially titled the Urban Revitalization Demonstration (URD).

including the: leveraging of additional development funding in the form of private investment;[5] development of public-private partnerships related to ownership and/or management of redeveloped properties; development of mixed-income and mixed-tenure (rental and homeownership) properties; encouragement of the economic self-sufficiency of residents through provision of supportive services; and stimulation of broader neighborhood revitalization to ensure the viability of redeveloped housing and provide opportunities for those residing in it. The latter has included, in some instances, efforts to improve neighborhood schools or reduce crime.

**Program challenges.** HOPE VI has not only contributed to the demolition of severely distressed public housing and its replacement with better designed, more appealing complexes, but it has changed the character of such developments in significant respects. They differ from traditional public housing and, for that matter, other federally subsidized housing programs for low- and moderate-income households in having transformed from *exclusively*:

- **Low-income to mixed-income occupancy**—although the proportions of households in the various income tiers differs across PHAs and redevelopments;

- **PHA-owned and -managed to privately owned and managed properties**—although the contractual arrangements between private entities and PHAs vary across PHAs and redevelopments, with greater or lesser PHA involvement in daily management; and,

- **Rental to mixed-tenure properties**—although the proportions of renters and homeowners vary across PHAs and redevelopments.

This amalgam of incomes, ownership, management, and tenure represents a sea change as compared to the preceding more than one-half century history of the public housing program. Prior to HOPE VI, there was little precedent for the involvement of non-traditional players in the financing, ownership, or management of public housing, and limited precedent for mixed-income occupancy.[6] These attributes, however, now appear to represent the wave of the future, enabled not only by federal HOPE VI funding but also other changes in federal rules and an increasing number of non-federally funded HOPE VI clones that been spawned in recent years.

Paradoxically, what makes HOPE VI project redevelopment feasible from a financial and development perspective (creative mixed-financing; the involvement of private developers, owners and managers; and mixed-income and mixed-tenure complexes) also creates conditions that could challenge and undermine its sustainability. As will be discussed below, the new public and private partnership arrangements and mix of housing products are untested and not risk free with respect to their viability. The fact that HOPE VI has successfully accomplished demolition and redevelopment of these properties does not guarantee viability in the long-term.

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[5] Initial HOPE VI grants tended to be very large, approximately $50 million; later grants, however, have been smaller, often between $20 million and $35 million, therefore requiring even more private financial leverage.

[6] One exception was “Turnkey” public housing, which was built by private developers according to PHA specifications and, then, sold to PHAs to be operated as conventional public housing or sold to residents.

> "Paradoxically, what makes HOPE VI project redevelopment feasible also creates conditions that could challenge and undermine its sustainability."

**Policy issues and program literature.** The major political issue that has dominated policy discussions about HOPE VI over the past decade involves the question of whether it should be reauthorized—i.e., continuing the program to include redevelopment of additional public housing properties. The debate about this issue and in much of the literature, focused on the program to date, concentrates on the following important topics:

- **The development process**—e.g., the length of time that redevelopment has taken and problems encountered with containment of redevelopment costs.
- **Consequences for affordable housing**—e.g., the loss of "hard" subsidized units resulting from replacement of larger public housing developments with smaller-scale properties (involving use of vouchers to make up the difference between units demolished and rental units constructed).
- **Consequences for pre-existing residents**—e.g., the problems encountered with residential relocation and the return of households displaced by demolition to redeveloped properties, with particular focus on "hard-to-house" households; and the extent, duration, and use by residents of supportive services during and following the transition period.
- **Impacts on new residents**—e.g., the anticipated and actual benefits to low-income households living in a mixed-income community.
- **Impacts on neighborhoods**—e.g., the extent of contingent neighborhood revitalization that has occurred.

The literature on HOPE VI can be divided into three broad categories: the first consists of a combination of documents ranging from promotional materials to best practices documentation; the second consists of program evaluation-type research; and the third consists of topical research. Each is briefly considered below.

***1. Promotional documents***. Promotional literature relating to the HOPE VI program consists, in part, of brochures and websites showcasing before-after pictures of the developments. These demonstrate the dramatic contrast between large, dilapidated properties that were demolished and smaller-scale, attractive properties that were constructed. This category also consists of press releases, presentations, and testimony by PHAs and other HOPE VI stakeholders, and media reports focused on HOPE VI projects and experiences. And, it consists of position papers and articles that either support the concept underlying HOPE VI or critique it—the latter variously emphasizing such issues as the loss of affordable housing units, production costs, the time it takes to redevelop a property, and any adverse consequences to residents displaced during redevelopment.[7] While normally such documents might not be included in a literature review related to a program, in this instance they constitute a good portion of what is known about HOPE VI to this point in time.

***2. Evaluation-type reports.*** The program evaluation literature includes a variety of cross-site and individual site studies. The most extensive involved an early assessment, and a later follow-up assessment, of the experiences of a sample of the initial cluster of HOPE VI projects—both sponsored by HUD and conducted by Abt Associates.[8] These public housing developments were considered to be among the worst in the nation, and the size of the grants provided to redevelop them was considerably larger than those subsequently awarded under the program.

Other reports with an evaluation emphasis have been produced by such organizations as the Urban Land Institute and the Brookings Institution, as well as by university students who have studied the experiences of a number of HOPE VI redevelopments.[9] And, HUD requires PHAs to undertake local evaluations of HOPE VI transformations, usually under contract to university based or other external researchers. The researchers submit their reports to their PHA sponsors that, in turn, submit them to HUD. In some instances researchers have used their experience in conducting such evaluations to publish academic articles but, in most cases, PHAs have not disseminated the reports.[10] Although HUD intends to produce a synthesis of local HOPE VI evaluations, this has yet to be done. All that is publicly known about the evaluations is that they apparently vary from development to development in what they focus on and how they are done.

***3. Topical reports.*** A considerable amount of research has focused on particular issues that are pertinent to HOPE VI redevelopments, whether or not the research has drawn exclusively from HOPE VI projects or has also included other types of housing developments and communities. One such topic has been the immediate and longer term impacts of HOPE VI

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[7] Among the many examples of either supportive or critical commentaries are: Andrew Cuomo and Harold Lucas, *A Promise Being Fulfilled: The Transformation of America's Public Housing*, U.S. Department of Housing and Urban Development, July 2000; *False HOPE: A Critical Assessment of the HOPE VI Public Housing Redevelopment Program,* the National Housing Law Project, Poverty and Race Research Action Council, Sherwood Research Associates, and Everywhere and Now Public Housing Residents Organizing Nationally Together, June 2002; Ngai Pindell, "Is There Hope for HOPE VI? Community Development and Localism," *Connecticut Law Review*, Volume 35, Number 2, Winter 2003, 385-437; and Bruce Katz and Henry Cisneros, "Keep HOPE (VI) Alive," *Atlanta Journal-Constitution,* May 12, 2004.

[8] Linda B. Fosburg, Susan J. Popkin and Gretchen P. Locke*, An Historical and Baseline Assessment of HOPE VI, Volume I: Cross Site Report,* U. S. Department of Housing and Urban Development, August 1996; and Mary Joel Holin, Larry Buron, Gretchen Locke and Alvaro Cortes, *Interim Assessment of the HOPE VI Program: Cross–site Report,* Abt Associates, September 2003.

[9] See, for example: Urban Land Institute, *Engaging the Private Sector in HOPE VI, 2002*; Michael F. Schubert and Alison Thresher, *Lessons from the Field: Three Case Studies of Mixed-Income Housing Development*, Great Cities Institute, April 1996; Deborah L. Myerson, *Sustaining Urban Mixed-Income Communities: The Role of Community Facilities*, Urban Land Institute, October 2001; Alastair Smith, *Mixed-Income Housing Developments: Promise and Reality*, Joint Center for Housing Studies of Harvard University and Neighborhood Reinvestment Corporation, October 2002; Jason Eversole, Kerri Sacchet, Jose Dory, David Cookson and Sidney Brower, *Building Community: Jonestown, Albemarle Square and the Legacy of Flag House Courts,* University of Maryland Community Planning Studio, Spring 2007; Lisa Akchin, Robert Choflet, James Elliott, Shuo Huang, Maria Rivera, Nichole Steward and Eunsoo Yang, *Heritage Crossing at 5: Success and Challenges in a HOPE VI Development*, University of Maryland Urban Studies and Planning Program, Spring Studio 2008; and the Johns Hopkins University Institute for Policy Studies, *Neighborhood Effects of HOPE VI: Evidence from Baltimore*, Occasional Paper No. 28, April 2003.

[10] Some of the reports, however, are available on the Internet.

demolition and relocation on residents, following them over an extended period of time.[11] Likewise, the topic of mixed-income housing has been of considerable interest, with studies ranging from those that assess the challenges involved in creating or maintaining such communities to those that document selected experiences. [12] Of growing interest now that mixed-income properties have been in place for some time is their effect on the lower-income households who reside in them, concentrating, for example, on whether the experience contributes to poverty reduction.[13] The relationship between redevelopment and broader neighborhood revitalization has also attracted considerable attention,[14] with specialized focus on such subjects as concomitant school improvement.[15]

Notably absent from the literature is any comprehensive, cross-site assessment of a representative sample of seasoned HOPE VI redevelopments to determine how they are faring with respect to occupancy, turnover, management, and financial viability, and what that indicates about the likelihood they can be sustained over time.[16] Nor is there any survey of the post-

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[11] See, for example, Susan Popkin, Diane K. Levy and Larry Buron, "Has HOPE VI Transformed Residents' Lives? New Evidence from the HOPE VI Panel Study*," Housing Studies,* forthcoming.

[12] See, for example, Karen Beck Pooley, *Mixed-Income Housing Bibliography*, draft, April 19, 200; Larry Buron, *Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties: A Case Study of Montevista in Milpitas, California*, NeighborWorks America, November 2005; *Seven Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties: Summary Report,* NeighborWorks America, June 2006; Alastair Smith, *Mixed-Income Housing Developments: Promise and Reality*, Joint Center for Housing Studies of Harvard University and Neighborhood Reinvestment Corporation, October 2002; *Cityscape*, Volume 3, Number 7, 1997, which contains articles such as: Paul C. Brophy and Rhonda N. Smith, "Mixed-Income Housing: Factors for Success," Alex Schwartz and Kian Tajbakhsh, "Mixed-Income Housing: Unanswered Questions," and Jill Khadduri and Marge Martin, "Mixed-Income Housing in the HUD Multifamily Stock;" and *Building Capacity, Leveraging Change: Case Studies*, Local Initiatives Support Corporation, National Equity Fund and National Association of Housing and Redevelopment Officials, 2006.

[13] See, for example, Mark L. Joseph, "Is Mixed-Income Development an Antidote to Urban Poverty?" *Housing Policy Debate*, Vol. 17, Issue 2, 2006, 209-233; Mark L. Joseph, Robert J. Chaskin and Henry S. Webber, "The Theoretical Basis for Addressing Poverty Through Mixed-Income Development," *Urban Affairs Review*, Volume 42, Number 3, January 2007, 369-409; Mark L. Joseph, "Early Resident Experiences at a New Mixed-Income Development in Chicago," *Journal of Urban Affairs*, Vol. 30, No. 3, 2008, 229-257; and Thomas D. Boston, "The Effects of Mixed-Income Revitalization and Residential Mobility on Public Housing Residents: Case Study of the Atlanta Housing Authority," *Journal of the American Planning Association,* Vol. 71, No. 4, Fall 2005, 393-407.

[14] See, for example, Mindy Turbov and Valerie Piper, *HOPE VI and Mixed-Finance Redevelopments: A Catalyst for Neighborhood Renewal,* The Brookings Institution, September 2005; *HOPE VI Resident Issues and Changes in Neighborhoods Surrounding Grant Sites*, GAO, November 2003; and Sean Zielenbach, *The Economic Impact of HOPE VI on Neighborhoods*, Housing Research Foundation, 2003.

[15] See, for example, Martin D. Abravanel, Robin E. Smith and Elizabeth C. Cove, *Linking Public Housing Revitalization to Neighborhood School Improvement,* The Urban Institute, June 2006; Thomas D. Boston, *The Performance of Elementary Schools in AHA's Revitalized Mixed-Income Communities*, April 2005; Sandra M. Moore and Susan K. Glassman, *The Neighborhood and Its School in Community Revitalization: Tools for Developers of Mixed-Income Housing Communities,* Urban Strategies, St. Louis, MO (undated); Jill Khadduri, Jennifer Turnham, Anne Chase and Heather Schwartz, *Case Studies Exploring the Potential Relationship Between Schools and Neighborhood Revitalization*, U.S. Department of Housing and Urban Development, 2003; and David P. Varady, Jeffrey A. Raffel, Stephanie Sweeney and Latina Denson, "Attracting Middle-Income Families in the HOPE VI Public Housing Revitalization Program," *Journal of Urban Affairs,* Vol. 27, June 2005.

[16] This is despite the fact that the issue has been of longstanding interest. In 2001, for example, NeighborWorks Multifamily Initiative hosted a symposium focused on whether the nation's affordable housing stock is being created to be sustainable. According to Ellen Lazar, Executive Director of the Neighborhood Reinvestment Corporation, "The day fostered a candid and open conversation among some of the brightest minds in affordable housing. They concluded that sustainability was not supported by much of our policy and practice." "Mixed-Income Housing's

occupancy practices that are being utilized.[17] The closest such document, which does not purport to empirically assess the status of the HOPE VI portfolio, is a practitioners guide to *Resident Success in Economically Integrated, Socially Diverse Housing* prepared by The Community Builders, the nation's largest urban nonprofit housing developer.[18] Based on "convenings, brainstorming sessions and interviews" with housing practitioners and researchers, the document considers challenges facing those who work with mixed-income housing, provides guidance with respect to effective practices, and offers program implementation tools for use at the development as well as "resident initiatives" phases. While an impressive resource manual, there is no empirical literature with which to know whether the practices it promotes are being used, or being used effectively, in HOPE VI redevelopments across the country, aside from those properties that have been developed and are managed by The Community Builders organization itself. How sustainable HOPE VI developments are, then, is an open question.

## III. Defining "Sustainability"

The complex array of federal government rental housing programs for low- and moderate-income households can best be portrayed along three independent dimensions: the depth of subsidy that is involved (whether shallow or deep); the subsidy basing that is utilized (whether to the project/unit or household); and ownership (whether public or private).[19] There are programs that fall into most of the cells that result from crossing the above three dimensions, which complicates comparisons among them.

A major program type involves project-based subsidies to private developers/owners for construction or rehabilitation of multifamily housing—known as HUD-assisted housing. The subsidies range in depth, depending on program, and have in some instances been supplemented with household-based subsidies. The primary subsidy, however, is for development. It is provided on a one-time basis in exchange for an owners' agreement to abide by federal regulation of occupancy, rents, and other development and management functions. As discussed in papers prepared for the Millennial Housing Commission, "sustainability" under such programs means that properties should remain both affordable for the intended target populations and financially viable on a long-term basis, such as 50 years, without the need for additional or periodic infusions of subsidy funds or extraordinary rescue assistance.[20] Nonetheless, according

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Greatest Challenge: Strengthening America's Neighborhoods While Reaching Our Lowest-Income Families," *The NeighborWorks Journal,* Neighborhood Reinvestment Corporation, 2002, p. ii.

[17] HUD's report to the appropriations committees of the Congress, *HOPE V I: Best Practices and Lessons Learned 1992-2002*, June 14, 2002, noted, "Numerous articles have been written about the positive and negative impacts of HOPE VI. However, many of these articles focus on the HOPE VI model and its possible impacts, early phases of development, community planning components, financing pieces, unit production, cost per unit, relocation via housing choice vouchers and replacement housing strategies. There is very little published on the social and physical characteristics of completed HOPE VI developments and their effect on residents. There is even less information available on the economic and neighborhood impacts of these developments" (p. 27).

[18] Patrick M. Costigan and Leo V. Quigley, January 2006.

[19] Martin D. Abravanel, *The Federal Government's Rental Housing Programs for Low- and Moderate-Income Households,* The Urban Institute, August 2008.

[20] This definition follows the discussion provided in several background and concept papers dealing with the preservation of privately owned HUD-assisted housing developments, prepared for the 2001 Millennial Housing Commission. See, for example, *Preservation Task Forces Background Paper: Preservation of Existing Affordable.*

to Charles Wilkins, an affordable housing specialist, most past and current federal government approaches for producing subsidized rental housing have required an additional injection of subsidy, generally between 15 and 25 years after development, for repairs, repositioning, and/or financial restructuring.[21]

In contrast to HUD-assisted housing programs, subsidies for conventional public housing properties, which are owned and managed by public agencies, have taken three forms: initial capital support for acquisition/construction; subsequent capital support for major repairs and modernization; and operating support on a continuing basis. HOPE VI public housing redevelopments, however, provide yet another variant that is somewhat more complicated than either that associated with HUD-assisted housing or conventional public housing.

- **Under HOPE VI there are initial grants to PHAs that support demolition, relocation, social outreach to existing PHA residents, and a portion of the redevelopment costs.** In most cases, these are supplemented with other forms of public and private financing such that the redevelopment can involve both homeownership and rental housing, intended not only for low-income households but also for those who can afford to pay market-rate rents or purchase.

- **That portion of the redeveloped property sold to homeowners is no longer subject to public control or eligible for public subsidy.** If homeowners cannot meet their financial obligations and are not otherwise receiving an ongoing homeownership subsidy, the likely course involves mortgage default, foreclosure, and resale of the property. Presumably the PHA that originally owned the public housing development has no further financial obligations to such households. [22] The implication of property depreciation or market softening may be indirect—potentially affecting the viability of adjoining rental or homeownership properties—but not a trigger for additional subsidization.

- **The remainder of HOPE VI redeveloped properties consists of rental housing with varying proportions of households paying a range of rents—from below-market to market rate.** Often included are units developed under the IRS-administered Low Income Housing Tax Credit program, which have income restrictions but no subsidy from HUD unless a tenant independently has a Section 8/Housing Choice Voucher. PHAs typically hold a ground lease on the property but the rental units themselves are owned by a private owner. For those units reserved for low- and

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*Housing,* Draft—Revised, September 2, 2001; and *Subsidized Rental Housing Committee Background Paper: Pre-LIHTC Affordable Housing—Historical Context*, Draft—Revised, July 26, 2001.

[21] It should be noted that non-subsidized housing properties may also require infusions of capital for repairs and rehabilitation in this time frame; indeed, in some instances, housing is demolished and rebuilt at this point. That is the case where housing is developed with a short-term bottom line view, not for long-term viability, without refinancing or new infusions of capital. Also, household-based subsidies in the form of rent supplements or vouchers may be essential for some assisted-housing properties with front-end subsidies in order for them to remain viable.

[22] This is a fairly simplified model, however, and may not apply in all instances. For example, a PHA may assist in homeownership sales by providing soft second mortgages and, therefore, retain an interest in the property, or it may purchase units at foreclosure sales to preserve them as affordable housing. The extent to which PHAs remain involved in the homeownership portion of HOPE VI redevelopments across the program has not been documented.

very low-income occupancy (including tenants who previously resided in the demolished property), PHAs are generally contractually obligated, under a regulatory and operating agreement, to provide private owners with operating assistance under Section 9 of the Housing Act.[23]

As will be discussed below, the ownership arrangements and relationships with PHAs vary from redevelopment to redevelopment. Therefore, the sustainability of the property depends on: (a) operating costs for the entire redevelopment; (b) the flow of Section 9 funds from HUD to the PHA, and the PHA to the owner, to assist in covering operating expenses associated with the below-market rate units; and (c) the demand, and rents that can be charged, for the market-rate portion of the redevelopment. As in all market-rate housing, viability is a function of the initial underwriting and financing arrangements (including reserve accounts), construction quality and appeal, maintenance and management experiences, and market trends and fluctuations.

Given that one portion of redeveloped properties relies in part on continuing federal subsidies and that the remainder does not (except, in some cases, for voucher assistance to tenants), HOPE VI sustainability depends on having sufficient operating income for the entire rental portion of a redevelopment, from both ongoing subsidies and rents, to maintain it *for the particular market for which it was intended*. Initial financing for HOPE VI redevelopment is premised on having and maintaining specific mixes of incomes that may vary from property to property; in all cases, however, they include some fraction of households whose incomes are insufficient to afford market-rate housing. Sustainability determinations, therefore, require maintaining such a mix. Other issues—such as whether the legal or contractual arrangements between private owners and PHAs are practical or whether the management arrangements are workable—may also be of interest as they may affect sustainability.

"HOPE VI sustainability depends on having sufficient operating income for the entire rental portion of a redevelopment, from both ongoing subsidies and rents, to maintain it for the particular market for which it was intended."

Finally, from a temporal perspective, a property may have sufficient operating income at present but not be sustainable over the longer term. Sustainability depends on *anticipation of sufficient income into the future* to operate the property for its intended market. How far into the future is a question, however. Sustainability projections are often based on analyses of leading indicators like occupancy trends, expected market demand, rent-paying capacity of prospective renters, and projected operating and capital expenditures. Estimates using such indicators are bound to be time delimited, but there appears to be no shared understanding as to how long into

[23] Section 9 of the Housing Act of 1937 (42 U.S.C. 1437g), as amended, "Public Housing Capital and Operating Funds." To the extent that Section 9 units are occupied by tenants who contribute rent, based either on 30 percent of their income or a flat rent option, Section 9 assistance is reduced dollar for dollar by the rent paid. Hence, rents that are collected from such tenants do not increase the operating budget of the property above and beyond the operating subsidy; the subsidy is intended to fill the gap between rent receipts and estimated operating expenses.

the future HOPE VI redevelopments are *expected* to be sustainable—15 years, 30 years, in perpetuity, or whatever. Regardless of how long, however, worst case scenarios at *any* future point in time would involve a HOPE VI redevelopment becoming the property it replaced, condition wise, or becoming transformed into exclusively housing for households able to pay market rates. Either outcome would be contrary to program objectives.

## IV. Considerations for Assessing the Sustainability of HOPE VI Redevelopments

What factors are especially important to focus on when assessing the sustainability of HOPE VI redevelopments? Certainly they include features important to the viability of any real estate or housing development, such as the quality of underwriting, the adequacy of financing, maintenance expense projections, construction quality, physical condition, management arrangements and expenses, and resident satisfaction. But, in the case of HOPE VI, it is important also to consider features that distinguish the program. To understand what those features are, we reviewed a range of material and consulted with practitioner experts. The information collection process consisted of the following:

- **A survey of HUD field office officials.** Earlier in the development of the HOPE VI program, the Urban Institute conducted a brief review to understand better the program's practices, identify emerging outcomes, and highlight lessons from the program's experience that could inform and help to improve results for the public housing program more generally.[24] As part of that effort, the Institute invited a sample of senior HUD field office officials who were associated with the public housing program to comment, in open-ended fashion, on issues and experiences they considered to be significant with respect to HOPE VI experiences. As might be expected, much of their commentary dealt with the revitalization and redevelopment process as opposed to post-occupancy, and experiences varied from HUD office to office, yet a number of themes emerged that bear on sustainability assessment. The latter information had not been used for the earlier report and, therefore, was reviewed for the first time for this effort.

- **A practitioner and stakeholder roundtable.** On July 2, 2008, the Urban Institute and the University of Maryland's Graduate Programs in Real Estate Development convened a panel of private housing management and real estate practitioners as well as HOPE VI stakeholders (PHA officials, legal experts and university based researchers) who had an interest in affordable housing and HOPE VI. Its purpose was to discuss approaches to defining and assessing HOPE VI sustainability. In the course of the discussion several key issues and challenges were identified.

- **Discussions and communications with other experts.** Over the last year or so Urban Institute researchers have spoken to, or corresponded with, selected HOPE VI stakeholders who are knowledgeable about affordable housing and who have various

[24] G. Thomas Kingsley, Martin D. Abravanel, Mary Cunningham, Jeremy Gustafson, Arthur J. Naparstek and Margery Austin Turner, *Lessons from HOPE VI for the Future of Public Housing*, The Urban Institute, December 2003.

perspectives on the program. These communications included discussions about issues that are especially relevant to assessing the sustainability of HOPE VI redevelopments.

Nine factors considered particularly important to sustainability assessment in the HOPE VI context emerged from the above activities. They are discussed below.

***1. Deal arrangements and, especially, the terms of transformation.*** There is universal recognition that the deal arrangements and underwriting associated with demolition and redevelopment under HOPE VI, involving multiple sources of funds and varying terms and conditions, are complex and opaque. The basics are generally disclosed to the public but, because private investors and development/ownership entities are involved, some financial information is likely to be considered proprietary and not made public. Although private owners are obligated to submit certain financial reports to their PHA partners on a regular basis, it is not clear whether PHAs are allowed, required or inclined to release this information to third parties, and it is generally agreed that private owners would not be inclined to do so.

Beyond the financial arrangements are the ownership and management terms that are negotiated between PHAs and private entities—as memorialized in legal and contractual documents such as ground leases, property management agreements, management plans, and regulatory and operating agreements. Because many such documents are prepared by a small number of legal teams with specialized expertise in the HOPE VI program, they may often follow a similar format; however, terms can differ across PHAs and from redevelopment to redevelopment. Each agreement is negotiated separately by the relevant parties.

Among the more important terms agreed upon between partners are those related to transformation—the circumstances under which original arrangements between PHAs and owners can be altered. Some have termed this the “escape valve” provision of partnership arrangements. Transformation is generally triggered if the operating subsidy and other resources are diminished to the point that operating expenses exceed income for some specified period of time. As remedies for this, allowable changes might include modifying the particular mix of incomes (including converting to exclusively market-rate housing) or returning the property to public (PHA) ownership prior to an otherwise contractually established point in time. Should a redevelopment reach the stage of transformation, this would be an acknowledgement, *post facto*, that it had been unsustainable. Consequently, the transformation provisions are very significant.

Whether the details of *partnership* arrangements are made public, or even subject to public disclosure, is a matter of disagreement. Some stakeholders believe the relevant documents are public information while some believe otherwise. That notwithstanding, the fact is that little is known about the contents of such documents across the range of HOPE VI redevelopments, including how they vary. It is safe to say that, aside from review by HUD, most such documents have yet to be examined by third parties despite their contents being critical to long-term sustainability assessment.[25]

***2. Partner capacity, partnership relationships, and communications.*** HOPE VI redevelopment has generally been accomplished through public-private partnerships, the history

[25] HUD staff reviewed and approved all such documentation before it was signed by the relevant parties.

of which pre-dates HOPE VI and began with community and economic development projects. The form that such partnerships have taken in HOPE VI is similar in some respects to that involving community and economic development projects but is relatively unique with respect to the field of affordable housing. The arrangements are unlike the more traditional model that has involved private ownership and public regulation of assisted housing (under programs such as Section 236 or Section 221(d)(3)) or tax credit production and ownership of affordable housing, and are altogether different from conventional public housing whose construction is by private contractors but whose regulation, ownership and management resides exclusively with the public sector.

HUD field office officials, in particular, emphasized the importance of partnership relations for generating positive redevelopment and post-occupancy outcomes. Much of their commentary focused on the fact that not all PHAs have the professional expertise or staff time to manage and oversee mixed-income developments—including effectively monitoring or regularly dealing with private-sector owners, managers and residents (or resident associations). Accordingly, they stressed the need to develop and rely on strong partner relationships. Left unclear is the question of whether PHAs should, in fact, be involved in management oversight as opposed to engaging in portfolio asset management. Indeed, relationships may vary considerably across redevelopments given that there has been no standard established.[26]

Some HUD officials, however, also contended that there are only a limited number of private-sector firms with a presence in any particular locality that are capable of successfully managing HOPE VI redevelopments, so private sector partners need to be selected with care. The lesson these HUD officials drew is that the combination of experience, skills, and capacity of each of the partners—especially PHAs and private owners/managers but also other stakeholders such as service-providing organizations, resident associations, and homeownership associations—is a key factor, as is the strength and quality of the working relationships among them.

Related to the above, but a separate concern, is the quality and effectiveness of communications between PHAs and owners, and between each of them and residents—including homeowner and renter associations. Good cooperation, coordination and communications across such entities are considered absolutely essential. Several HUD field office officials admitted that HUD did not have sufficient staff or expertise to become closely involved in HOPE VI redevelopment oversight, underscoring the need for solid cross-partner relationships. They suggested that given the different categories of housing that comprise HOPE VI redevelopments, communications need to be open, inclusive, and routine in order to accommodate and balance the various interests and groups involved.

***3. Management complexities and need for professional property management.*** Growing out of both the particular tenure and income mix of any HOPE VI redevelopment and the specific contractual arrangements between the PHA and private owners or managers is the potential for an especially complex management environment. Not only is there likely to be a

[26] Many owners under HOPE VI are likely to have had previous experience with HUD-assisted housing, in which HUD field office staff provide periodic regulatory oversight but are generally not involved in overseeing property management on a routine basis; they likely anticipated no day-to-day PHA involvement in property management under HOPE VI. PHAs, on the other hand, are used to having hands-on management of their own properties, and it is unclear how the relationships have evolved and vary.

heterogeneous socioeconomic mix but, in some instances, multiple management entities and responsibilities. The latter can include PHAs and owners with various roles but also resident or homeowner associations and sometimes community based service organizations involved in one management function or another. For example, in instances where previous residents of a demolished public housing development or others are granted a PHA residency preference, filling vacancies may involve a sequence of steps that must begin with the PHA providing names to the private owner/manger and, then, the private owner/manager engaging in its own screening process. If this two-stage process is not well coordinated, it has the potential for causing delay and adding to management costs.

Roundtable participants were aware of situations where homeowners or residents were uncertain as to who was responsible for particular management or maintenance functions and confused as to who to contact. This may especially be the case with respect to maintenance of common areas or where different portions of a redevelopment (homeownership, market rate/tax credit, or subsidized) are treated differently, even if the units are designed to be indistinguishable from one another. Stakeholders also considered the possibility of gaps in management and maintenance or inconsistencies with respect to who is entitled to, or receives, certain services—including maintenance services or grievance hearings. Such situations can contribute to resident dissatisfaction as well as tensions between owners and renters, or among different categories of renters. Management arrangements, therefore, including who is involved and how responsibilities are divided, are likely to be factors that can affect sustainability.

HUD field office personnel, PHA officials, and private sector management entities all emphasized the importance of having professional property management and maintenance. Some also stressed the need for having on-site management and/or performance based management. There was not consensus, however, as to how this should be accomplished. There are those who contend that PHAs are not generally in a position to manage complex projects while others believe the opposite. However, there was also the recognition that private management is not always sufficient, citing instances of previous failures by such firms to maintain HUD-assisted housing developments. In the experience of numerous stakeholders, the important consideration is disciplined real property management and quality maintenance—whether done by private or public entities.

***4. Income and tenure mix proportions.*** HOPE VI redevelopments are not unique with respect to either income or tenure mixing. However, given that they involve public housing, which traditionally serves many very low-income renter households, the greater range of mixing in HOPE VI—from very low income households (i.e., including those who pay no rent) to market rate renters as well as homeowners—is a distinguishing program characteristic. According to roundtable participants, this aspect of the program, and its implications, had not been well thought through at the outset of HOPE VI.[27] If anything, the conventional wisdom that low-income

[27] See also the following articles, which were written at the early stage of development of the HOPE VI [originally Urban Revitalization Demonstration (URD)] program: (1) Gayle Epp, "Emerging Strategies for Revitalizing Public Housing Communities," *Housing Policy Debate,* Volume 7, Issue 3, 1996, 563-588. Epp observes, "tinkering with the public housing program by changing occupancy policies or creating new, small-scale initiatives will not lead to long-term sustainability of communities…Since little research exists to indicate which combination of approaches ensures the long-term sustainability of revitalized communities or mixed-income developments, more evaluation of URD efforts is necessary;" and (2) Alex Schwartz and Kian Tajbakhsh, "Mixed-Income Housing: Unanswered Questions," *Cityscape: A Journal of Policy Development and Research*, Volume 3, Number 2, 1997, 71-92. Schwartz and Tajbakhsh observe that,

residents would benefit from living in proximity with higher-income residents, including homeowners, was essentially assumed. Apart from the issue of the social implications of income or tenure mixing, roundtable participants were not of the same opinion as to which form of mixing—income or tenure—constituted more of a management challenge; there was basic agreement, however, that each presented its own issues.

PHAs and private developers have applied different rules of thumb, although sometimes with great authority, as to what constitutes the ideal ratio of public housing eligible to tax credit eligible to market-rate households, to ensure financial viability. Sometimes, however, that determination has been a matter of negotiation among the parties to a redevelopment, not simply a function of *pro forma* analysis. In any event, there is no information at this point as to what range of income mixing is occurring across the spectrum of the HOPE VI program, nor have the implications of income mixing or tenure mixing been tested empirically over time. Numerous stakeholders observed that the “right” ratio is likely to contribute to sustainability just as the “wrong” ratio may detract from it. They also concurred that the particular mix of incomes and tenure in any redevelopment is certainly fundamental to assessing its sustainability.

***5. Amount and reliability of additional and ongoing subsidies.*** While income mixing may contribute to cross-subsidization within a redevelopment, stakeholders observed that in just about all cases financial viability also depends on having a continuing subsidy for that portion of the property serving public housing eligible households. It can take the form of ongoing operating subsidies and any other payments that may have been mutually agreed upon between PHAs and private owners—such as funds for reserve accounts used to replace capital assets or provide capital improvements. Stakeholders also noted, in particular, that the level of operating subsidy provided by the federal government to PHAs under Section 9 of the Housing Act has been reduced in recent years, with likely consequences for HOPE VI redevelopments inasmuch as this is the primary source of ongoing subsidy to owners.

What follows in instances where subsidies are reduced is dependent, in part, on the legal and contractual arrangements negotiated between PHAs and private owners, as specified in regulatory and operating agreements. Among other items in those agreements are proscriptions as to the measures owners can or must take when subsidies are diminished—including drawing down reserve funds, reducing costs, increasing minimum rents,[28] adjusting the income mix of residents, or triggering potential transformation options. The point is that the amount and reliability of continued subsidization of HOPE VI redevelopments is obviously an important consideration in assessing sustainability.

***6. Social conditions and interactions.*** Roundtable participants were of the opinion that mixed-income and mixed-tenure arrangements in the HOPE VI program were initially conceived primarily as a funding mechanism, with community building objectives only a secondary or

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“Mixed-income housing represents the current direction of U.S. housing policy, but little is actually known about its social benefits, its costs, and the preconditions for its viability.”

[28] It should be noted that even though minimum rents might be permitted to be increased in response to diminished Section 9 operating subsidies, this would likely result in a further reduction of Section 9 subsidies—since they are subsequently reduced, dollar-for-dollar, by the amount of rent collected, as previously discussed. Therefore, even though this may be a remedy provided under regulatory and operating agreements, it may not produce an overall increase in operating income.

subsequent motivation. Even funding for the Community and Supportive Services Program (CSSP) aspect of HOPE VI is temporary, calling into question the sustainability of such services. Yet because many redevelopments include both homeowners and renters of various incomes, it is certainly the case that the social fabric of the community can have an impact on its perceived desirability as a place to live for existing as well as prospective residents and owners.

Apart from the issue of the desirability (for poverty deconcentration and other purposes) and/or impacts of income and tenure mixing, roundtable participants emphasized challenges associated with managing such properties. Most professional firms tend to be geared toward property management, not community building. Many are not likely to be proactive with respect to anticipating or dealing with some of the social issues and tensions that can emerge in a mixed-income and mixed-tenure complex. Likewise, private firms do not generally have the experience with which to anticipate such considerations as the appropriate timing and circumstances under which resident or homeownership associations are expected to play a role, and what role they will play.

Integrating renters and homeowners into a community may be as much of a challenge as integrating low and middle income households. While such issues are not unique to HOPE VI, the character of many such redevelopments almost guarantees that social conditions and interactions will be one of the keys to their sustainability.

***7. Location and legacy***. Properties were selected for HOPE VI "treatment" in many cases because they were considered to be seriously distressed, defined in terms of both the physical deterioration of the property and surrounding neighborhood. Some properties are in locations that are improving or gentrifying, and HOPE VI in some instances has spurred, or has occurred concomitantly with, neighborhood improvement. On the other hand, some redevelopments remain in disadvantaged neighborhoods and carry with them a legacy associated with high concentrations of low-income households, high levels of crime, unemployment, or social pathology, and are stigmatized as such. Stakeholders emphasized that property revitalization and mixed-income residency may initially appear incompatible with the surrounding neighborhood, leaving the question as to the lingering effects of location and legacy on homeowner and market-rate renter demand.

***8. Incentives.*** PHAs, private owners, private management firms, homeowners, and renters have different stakes in a HOPE VI redevelopment and, therefore, varying incentives for wanting to make it work. Understanding the incentives is important to assessing the likelihood that properties will be sustained over time. For example, tax credit investors have an incentive to remain involved in their property at least until the end of the compliance (and extended use) period, but not necessarily thereafter. Owners are generally obligated under the terms of regulatory and operating agreements to remain involved in the redevelopment for a specified number of years, but generally negotiate exit clauses that permit transformation under certain circumstances. Another issue that stakeholders believed important to consider was whether, and the extent to which, such incentives are aligned or misaligned *across the various parties involved*, and the implications of this for ensuring redevelopment sustainability.

***9. Financial strength of the ownership entity***. The private ownership and management entities involved in HOPE VI redevelopments have market incentives to be efficient and effective in their operations—at both the development and management phases. Some, however, are engaged in multiple business enterprises in addition to HOPE VI. The financial condition of an owner's *other* assets may be an important leading indicator of an ownership or management entity's ability to deal with their HOPE VI redevelopments. According to David Smith, president of Recap Advisors and founder of the Affordable Housing Institute,

> Sick owners infect their properties. Ownership and management are tough jobs. Markets are very competitive and react quickly. An owner in trouble in any part of its business tends to obsess about that part, losing interest in other assets, and diverting critical resources to shoring up the weakness and leaving the apartments to fend for themselves.[29]

Hence, the financial health of the ownership entity with respect to its other business interests may also be an important factor to consider when assessing the sustainability of HOPE VI redevelopments.

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|---|---|
| **Factors that Might Affect HOPE VI Redevelopment Sustainability** | • Deal arrangements and terms of transformation<br>• Partner capacity, partnership relationships, and communications<br>• Management complexities and need for professional management<br>• Income and tenure mix proportions<br>• Amount and reliability of additional and ongoing subsidies<br>• Social conditions and interactions<br>• Location and legacy<br>• Incentives<br>• Financial strength of the ownership entity |

**Summary.** In addition to the standard set of factors that can affect the viability of any residential real estate venture,[30] HUD field office officials, housing practitioners, and affordable housing stakeholders highlighted considerations they believed to be especially important to HOPE VI sustainability. These are listed above. From the preceding discussion, however, it should be clear that

- These factors can interact in complex ways that may not be easy to sort out;
- Their rank ordering from most to least important is not necessarily obvious; and

[29] *Recap Update* December 27, 2007, http://www.recapadvisors.com/updates/recent/index.php.

[30] See Background Paper: Preservation of Existing Affordable Housing, Appendix 3: *"Term Sheet," for Long Term Sustainability and Affordability*, pp. 21-25.

- While consideration of some of them might involve quantitative or statistical analysis considerations of others would likely be based on the insights and experience of seasoned practitioners and management specialists.

A significant future challenge, then, will be to determine the relative importance of these factors, develop appropriate indicators of at least the most important ones, and consider how best to construct a useful assessment process. Imposing as such an undertaking may be, that is not the only challenge facing HOPE VI sustainability assessments. Others are considered in the next section.

## V. Challenges to Assessing HOPE VI Sustainability

Prior to preparing this report, efforts by the Urban Institute to generate interest in an independent assessment of HOPE VI sustainability received mixed reactions. Numerous individuals were contacted, including officials of HUD and private philanthropic foundations, private sector affordable housing practitioners, and local HOPE VI evaluators and other affordable housing researchers. Most expressed strong support for initiating an assessment, asserting it was not only necessary but past due. Some, however, raised concerns about undertaking an assessment.

One such concern, alluded to by many, is that if an assessment took the form of an independent program evaluation and concluded that HOPE VI was not performing as intended, that finding might jeopardize the program's reauthorization. While this is an issue for any government program, however, it is certainly not an acceptable reason for avoiding evaluation. Government programs should be accountable and subject to rigorous appraisal. That notwithstanding, a sustainability assessment, as considered here, is less a program evaluation than it is a means of identifying potential problems in advance of their having an adverse impact on the HOPE VI program. Alleviating concern about potential for adverse impacts on the program's reauthorization, therefore, turns on seeing a sustainability assessment as having positive value for all parties, and being initiated for that reason.

Other more substantive challenges to an independent assessment of HOPE VI sustainability are the assertions that such effort is: already taken into account at the underwriting stage; currently underway; or simply not feasible. The remainder of this section briefly considers each of these contentions.

**The assertion that viability has already been accounted for at the underwriting stage.** Some stakeholders contend that financial viability is a key concern at the development stage of all affordable housing projects. They emphasize that this is certainly true for HOPE VI redevelopments in that they usually involve a combination of government grants, tax credits, and private investment. The combination of grant application rules, loan underwriting and standard due diligence, and market incentives is expected to ensure a sound product. Unfortunately, however, the history of federally subsidized housing programs attests to the fact that program design and initial development financing are not always adequate to sustain affordable housing over the long run. Economic, demographic, and housing market conditions change over time and can have adverse effects on project sustainability. Beyond that, ineffective management can undermine the "best" program design and development efforts. According to David Smith, "People think this stuff is hard to build, easy to manage. The reality is precisely opposite: the stuff is easy to build—just throw money—and hard to manage."[31]

Although there is little systematic evidence as to the sustainability of HOPE VI redevelopments, there is anecdotal evidence indicating that not all of the development planning has been effective. For example, the lead HOPE VI staff member at one PHA disclosed that she "rarely met or spoke with" the private ownership entity, despite having a formal operating agreement that required monthly meetings. And, newspaper reports in 2007 at another HOPE VI development revealed a level of crime considerably higher than anticipated. While the city and PHA moved quickly to deal with the situation, the property had experienced violent, racially motivated attacks, mob scenes, and armed robbery. According to the PHA director, "We might have been a bit too optimistic, a bit too unrealistic."

Another indication of post-development experiences derives from a national apartment locator website, which permits residents to rate and comment on their housing unit. It contains scores of extremely negative comments about several redeveloped HOPE VI properties—some touted as unqualified successes and national models.[32] Although the properties are physically far superior to that which they replaced, residents complained, often in vivid detail, about management unresponsiveness, simmering racial or social class tensions, and excessive crime, noise, and other adverse living conditions following redevelopment. For one property, of 59 residents who had entered comments as of April 2007, only 24 percent recommended it. While there was some improvement after that, as of January 2009, still only 31 percent recommended living there. In the words of one resident, "It's beautiful on the outside, but rotten on the inside."

If nothing else, the above anecdotes suggest the possibility of reputational problems that could be very damaging to long term sustainability. Whether they are cause for concern, however, cannot be known at present because of the paucity of empirical research on post-development experiences.

**The assertion that there is ongoing due diligence, oversight, and research already in place.** Several stakeholders asserted that because there is government oversight—including physical inspections and financial analyses by HUD's Real Estate Assessment Center (REAC), and PHA asset management responsibility—and investor due diligence of HOPE VI redevelopments where LIHTCs have provided investment capital, additional assessment is not necessary. And, some assert that there is already research of various sorts underway on the program.

Whether the financial or other monitoring being done by private owners and managers, investors, and PHAs is sufficient to anticipate future viability challenges is an open question because of the newness and special character of HOPE VI redevelopments. HOPE VI is different enough from exclusively public housing or exclusively privately owned assisted or tax credit housing to complicate sustainability assessment. Not only is there mixed income and mixed tenure occupancy in many redevelopments but also multiple entities with different interests and responsibilities. Such arrangements are relatively untested.

[31] See http://www.affordablehousinginstitute.org/blogs/us/2005/07/sustainable_aff.html.

[32] See http://www.apartmentratings.com.

With respect to research being done on HOPE VI, much of it has focused on issues like production costs, production timeliness, the loss of affordable units, resident dislocation, and resident services. While very important issues, they do not directly address the sustainability question. Likewise, HUD-required HOPE VI evaluations appear not be focused on issues of the sustainability of the redevelopments, and they are not done consistently across redevelopments.[33] Given the research that has been done or is currently underway, therefore, there is a considerable gap in knowledge related to sustainability.

**The assertion that sustainability assessment is not feasible.** The most serious challenge to independent assessment of HOPE VI sustainability is the assertion that it is not feasible. Feasibility involves a number of issues but turns primarily on the question of whether the partnership arrangements in play in many HOPE VI redevelopments—involving PHAs and private developers/owners and managers and, in some instances, resident or other types of community associations—impedes the collection of critical information. The questions of whether there is public accessibility to information about public-private partnership ventures, and whether private entities are likely to cooperate and participate, have been issues for some time.

Public-private partnerships involving urban development began to emerge in the United States in the 1970s. Even so, two decades later, in 1992, Leslie Riggin and colleagues of GAO highlighted the lack of knowledge about partnership projects. They observed that little attempt had been made to evaluate systematically the effectiveness of such projects because of major barriers involving the availability, accessibility, and validity of data.[34] "Because of the interests of both the public and private sectors in limiting access to negative (or positive) information," they contended, "much of the information that is available on partnership projects is promotional in nature."[35]

Columbia Business School Professor Lynne Sagalyn's more recent synthesis of the literature on public-private partnerships for urban development suggests that not much has changed since the early 1990s with respect to what is known about such efforts. This is despite the growing volume of literature on the subject. Highlighting the notion that a public-private strategy implicitly challenges prevailing norms of public sector intervention in property markets, she asserts that the blurring of lines between public and private action has contributed to a lack of understanding as to how such development projects work and what they produce.[36] Among other substantive lessons she derived from reviewing the research literature on this subject is that, in early stages, local government officials were often at a disadvantage and some "undoubtedly gave away too much, out-maneuvered by experienced developers." However, she asserts that the gap in knowledge about what has been gained, and at what cost, is still wide.

[33] Inquiries made to an informal network of local HOPE VI evaluators about project sustainability evidence produced only questions, suggesting limited concentration on this subject.

[34] Leslie J. C. Riggin, Patrick G. Grasso and Mary L. Westcott, "A Framework for Evaluating Housing and Community Development Partnership Projects, *Public Administration Review*, Vol. 52, No. 1, January-February 1002, 40-46.

[35] Riggin et al., "A Framework," p. 41.

[36] Lynne B. Sagalyn, "Public/Private Development: Lessons fro History, Research, and Practice," *Journal of the American Planning Association*, Vol. 73, No. 1, Winter 2007, 7-22.

> Descriptions of projects, institutional structures, and financing arrangements are commonplace, yet we know little about the details of deal negotiations and project execution, and even less about project performance. …We lack systematic evaluation of actual practice, reasoned debate on the thorny policy issues, and summaries of common implementation challenges. There has been little study of the risk-sharing arrangements that go to the core of these joint ventures.

With particular focus on HOPE VI, a provocative 2003 *Harvard Law Review* article alleged that the contractual terms many PHAs have with their private sector HOPE VI partners apparently do not obligate the latter to disclose information about their operations and performance, even to PHAs; as such, they are essentially insulated from significant sources of public accountability. Hence, "data regarding the program's impacts are scarce" (p. 1496).[37] The authors contend that,

> HOPE VI demonstrates that *neither* economic nor public law accountability mechanisms function effectively when privatization obviates the distinction between public- and private-sector priorities—that is, when the public sector elevates market values in a manner that marginalizes public values. In HOPE VI, this alignment has caused the accountability mechanisms of contract, choice, and public regulation to malfunction, largely precluding HOPE VI's intended beneficiaries and the general public from holding public and private actors accountable for their failure to fulfill HOPE VI's public functions.[38]

What obligations private sector partners have under HOPE VI is an open question. Stakeholders contacted for this report disagreed among one another as to what owners may be obligated to report to PHAs and what PHAs, in turn, can disclose to others, since some operational and financial information is bound to be considered proprietary. It also appears to be an open question how PHAs make use of whatever information they receive from private owners and managers. Of course, these questions need to be answered in order to consider the feasibility of undertaking a third-party assessment. If important information is not subject to disclosure, owners would need to cooperate voluntary in any assessment and it is unclear how many might choose to do so. For example, when a spokesperson for the PHA whose HOPE VI redevelopments were so widely criticized by residents in an apartment finders' website (see above) was asked about the possibility of participating in a third-party assessment to systematically study those properties, the response was immediate: "The owners would never stand for it," he declared emphatically.

**Summary.** A systematic, cross-project sustainability assessment of HOPE VI properties is needed as a basis for determining the primary risks they face and considering what can be done to control and mitigate them. Yet, no such assessment has been undertaken. There is not even

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[37] "When Hope Falls Short: HOPE VI, Accountability, and the Privatization of Public Housing," *Harvard Law Review,* Vol. 116, No. 5 (March 2003), 1477-1498. The authors submit that, "Without meaningful HOPE VI data, taxpayers cannot assess the efficacy of the $5 billion program that they are funding. The general public's exercise of choice is particularly important in HOPE VI, given that the direct consumers of public housing largely lack such choice. If neither public housing residents nor members of the public at large can register their preferences, the public and private entities implementing HOPE VI can function untethered to the program's goals and unaccountable to the program's ultimate beneficiaries" (p. 1497).

[38] "When Hope Falls Short," p. 1484.

basic awareness of the variations in public-private arrangements that exist, a catalogue of them, or an analytic typology. This is so for several reasons, some of which are more compelling than others. Aside from the cost of doing an assessment, a key obstacle is the *perception* that private-sector owners are not obligated or inclined to share information about their operations or cooperate. To the extent this is true, it is not necessarily the case that an independent team would be able to reasonably assess sustainability—unless perhaps there is some advantage or value to the private owners and managers that would encourage their participation.

Since an independent sustainability assessment would serve not only the public interest but, conceivably, also the interests of private ownership and management entities, it needs to be determined if owners and managers might recognize the latter and voluntarily cooperate. That is a key question that motivated the current effort, and is addressed below.

## VI. An Exploratory Look at HOPE VI Sustainability: Two Redevelopments

To determine empirically what appeal there might be, if any, to HOPE VI owners and their PHA partners to participate in a third-party sustainability assessment, we explored the possibility of conducting an abbreviated review at two redevelopments. Our purpose was less to be able to do a full-fledged assessment than it was to establish if the idea might take hold, since it would only be worth the cost and effort of designing such a process if it did. A complete, credible assessment would entail having resources beyond those available to us at present to be able to (a) sort out the more important from the less important assessment factors, (b) design the appropriate protocols, (c) collect the information, (d) consider what it meant for sustainability, and (e) reflect on options for forestalling problems that appear evident. It would likely require the support of professional legal, accounting, architectural/engineering, and/or property management specialists, who have no stake in the HOPE VI program, in particular redevelopments, or in competitive redevelopments.

Using previously established contacts, we approached the key parties to two HOPE VI redevelopments that had been in operation for the past several years. In one instance, the initial discussion was with the owner and, in the other, with both the owner and the PHA simultaneously. Each initially expressed interest—out of both a sense of public responsibility and professional curiosity as to what could be learned from the experience. That notwithstanding, the principals were also appropriately concerned about what participation would involve in terms of their time, the information that would be needed, and confidentiality protections. The ownership of both redevelopments agreed to participate, but a shortage of time precluded input from one of the two PHAs. Even so, significant documentation and information was obtained for both redevelopments—from principals, line managers, and some residents. Because a full assessment was not conducted and formal guidelines were not developed with respect to release of information, it is not appropriate to identify the two PHAs or redevelopments other than to indicate that both PHAs have multiple HOPE VI grants and both ownership entities have previous and extensive experience in developing and managing affordable housing.

- One of the redevelopments is situated near a central business district of a large city, near other major institutions on a busy thoroughfare. The rental property is owned and managed by a private company. Housing includes market-rate rental units and units subsidized with ACC, LIHTC and other public sources of support. Just over one-third of the rental units are market rate. There also is a mix of subsidized and unsubsidized homeowner units. An on-site community center includes offices of a development-based CDC and serves as a meeting space for a homeowners' association and a neighborhood association.

- The second redevelopment is public-transit accessible but located near the edge of a different large city. Around the site are other assisted housing developments. The rental portion of the redevelopment is owned by a private development and property management company. It includes rental housing for seniors and ACC- and LIHTC-subsidized units. It does not include market-rate rentals but does include homeownership units, all of which were initially sold at below-market prices. An on-site CDC provides services to residents and handles some aspects of property management. A resident association serves both owners and renters.

**Information collection.** To test the feasibility of carrying out a sustainability assessment, information was collected about the above redevelopments through site visits, discussions with key parties, and examination of documents. The discussions involved owners, property managers, PHA staff, and residents.[39] Semi-structured discussion guides with the partners covered topics such as the ownership structure, management challenges related to residents and asset management, property maintenance issues, and experiences with resident services and resident organizations. Guides for residents dealt with issues such as satisfaction with housing quality and maintenance services, property management issues including relations between residents and management staff, the availability and value of resident services, and interactions among neighbors.[40]

In addition to interviews, various documents were requested from the owners, particularly: regulatory and operating agreements; ground leases; management agreements; and articles and by-laws of tenant, owner, or resident associations. Other documents were also provided, however, by one or both owners. These included: management plans; land use restriction agreements related to Low Income Housing Tax Credits; management operation reports; HUD REAC scores; financial audits; resident lease forms; and grievance procedure policies for public housing tenants. Prior to providing such information, one owner requested that the assessment team sign a confidentiality/nondisclosure agreement stipulating that the documents could be used to prepare a report but not to disclose or publish specific information—such as the development or company name, financial information, or proprietary operations and procedures information. The agreement required that the documents be returned upon completion of the assessment.

[39] While interviews were sought with the owner of each redevelopment, its lead property manager, the PHA liaison for the property, and representatives of partnering organizations, the lead property manager at one site and PHA staff and partnering CDC officials at another were not completed because of scheduling issues.

[40] Residents were offered a $20 stipend to participate. The intention was to include both subsidized and unsubsidized renters as well as homeowners but such interviews turned out to be difficult to schedule, especially with unsubsidized renters and homeowners, during a relatively compressed time period.

**Experience related to the data collection process.** Several lessons regarding the assessment process can be drawn from the pilot experience. The first is that the value of a sustainability assessment was readily appreciated by those who were contacted—including the owners. They did not need to be convinced of its potential value. Likewise, it was possible to gain access to the owners and managers of the developments. Though they and their staff had limited time to participate in interviews, they were candid about what has gone well in the redevelopment and operations of their properties as well as with respect to what has proven difficult or might become problems in the future. The challenge faced during the pilot phase involved scheduling interviews with each staff person, several of whom were unavailable during the brief field period.

> "The value of a sustainability assessment was readily appreciated by those who were contacted—including the owners."

It is also possible to gain access to residents, although this component proved more difficult than anticipated. Names and contact information for residents were provided by the property managers or service providers at each redevelopment, but some were unreachable during the field period. The time required to get in touch with and recruit residents, especially those who work during the day, needed to be longer than was available, and would have benefitted by being augmented by a "snowball" sample approach to expand the number of contacts. Residents who were interviewed, however, were exceptionally cooperative and generally anxious to share their observations and opinions about the property.

An equally important process observation is that third parties can acquire key legal, financial and other documents from owners and/or PHAs. It is essential to have in place, however, a procedure for securing such information that credibly ensures it will be treated as confidential and neither inappropriately used or disclosed outside of the assessment team.

**Experiences related to the issue of sustainability.** Initial observations about sustainability involve legal arrangements, financial challenges, property management, maintenance concerns, and resident interactions. It became clear, however, that additional issues would likely arise from a more in-depth assessment.

***1. Legal arrangements.*** Based on both a review of key documents and discussions with property owners and managers, there appear to be two distinct categories related to sustainability: longer-term issues involving the length of time developments are intended to provide subsidized housing; and interim issues involving the risks to affordable units related to changes in operating revenues from subsidies and rents.

The ground lease period—representing the length of time a PHA expects a redevelopment to provide affordable housing—varied between the two redevelopments. In one instance it was for 55 years and in the other for 99 years.[41] In fact, however, the lease period is not necessarily the

[41] Of course it is not known what arrangements other PHAs and owners have in this respect.

"real" time limit for which an ownership entity expects to continue operating subsidized housing. That determination involves consulting other legal documents that identify different time periods that can affect the availability of subsidized units. For example, the compliance period for LIHTCs can also serve as a transition point for a portion of the affordable units in a development. For those, while change in the ownership and management of units is possible once the compliance period ends, the compliance periods vary.

At minimum, LIHTC compliance is for 15 years, as set forth by Section 42 of the IRS code, but longer time periods are often imposed by tax credit awarding agencies. Whenever compliance ends, the result could be a PHA taking or buying back management and/or ownership responsibilities of some or all of the rental units that, up to that point, only received public housing operating subsidies.[42] LIHTC units that have not been subsidized with ACC operating support (in many instances about one-third of the rental units in a HOPE VI redevelopment) could transition to market-rate units following expiration of the compliance period—depending on the terms of agreement with the LIHTC allocating agency and/or the PHA. Agreements between PHAs and owners include language on the 'transitioning' of units at such points in time. What happens at the end of the compliance period will be an issue for all HOPE VI redevelopments that involve tax credits and depends, in part, on what had been agreed to. The owner of one redevelopment is currently looking to the end of the 15-year compliance period as a prospective point of departure—not only for the investors but also the owner. The scenario that may occur would involve the property reverting to the PHA, which could either manage it, hire the former owner or another management firm to do so, or turn management over to a private nonprofit CDC. The implications of such a change on sustainability are not clear, but the possibility of change at that point at least raises the question of what stresses this might put on the redevelopment.

How transitions are structured can represent a change from the traditional model of public housing in perpetuity. While some would view this as an improvement over the traditional model because it lessens the chances of public housing deteriorating in quality over time, transitions to all, or an increased proportion of, market-rate units raises concerns about the longer-term availability of affordable housing.[43] Given the range of transition options at any one redevelopment or across redevelopments, the question then arises as to the outlook regarding the availability of more deeply subsidized (ACC) units and/or more moderately subsidized (LIHTC) units—depending on the variations in terms that have been established between PHAs and owners. Only through a review of the relevant documents, property by property, will that become known.

The above longer-term issue as to the sustainability of HOPE VI redevelopments can be anticipated and planned for ahead of time, if need be, by knowing the terms of ground leases, operating and regulatory agreements, LIHTC covenants, etc., and monitoring property performance. Of more immediate concern, however, are interim-term risks involving actions or

[42] LIHTC does not consist of an operating subsidy but, instead, capital funding up front. Some HOPE VI redevelopment LIHTC units, however, may *also* benefit from ACC operating subsidies. When the LIHTC compliance period expires, the owner is no longer obligated to provide housing to households of a particular income tier. Investors can use tax credits for up to ten years; there is no benefit to the LIHTC investor/owners during the last five years of the compliance period.

[43] The proportion of units that may transition to market rate varies from redevelopment to redevelopment.

events that can result in an unplanned loss of subsidized or below-market rate units. A range of risks is discussed below; here, the interest is in the contractual arrangements that allow for the transformation of subsidized units out of the below-market stock into market-rate housing. The key trigger for transformation is loss or reduction of public housing operating subsidies.

Agreements between PHAs and developers/owners on the structure of operating subsidy payments vary. Earlier HOPE VI redevelopments apparently tended to receive a set amount of subsidy from its partnering PHA regardless of what amount of ACC subsidy the PHA received from HUD under Section 9 on an annual basis; later HOPE VI redevelopments, however, generally involved agreements that stipulated percentage payments—i.e., a PHA is able to pass through any reduction in subsidies it receives from HUD to the owner. The two properties assessed here represent both types of operating subsidy arrangements. Per the regulatory and operating agreements, one redevelopment's transformation to market-rate housing would only be triggered by the loss of all operating subsidies, while the other redevelopment's transformation could be triggered by any (or continuing) HUD reductions in operating subsidies to the PHA. In the latter case, the PHA would pass along proportionate reductions in subsidy to the owner. Should that last long enough to cause the owner to tap into operating reserves, and should the reserves be reduced to a specified floor amount, the owner is required to submit to the PHA a proposal for transformation, which could lead to the loss of affordable housing units through conversion to market-rate units.[44]

A review of legal documents permits teasing out types of both longer-term and interim-term sustainability challenges. Clearly the relationships among owners, (LIHTC) investors, management companies (often owned by general partners of investment/owner entities), and PHAs are not only complex but can change over time, in part due to requirements of subsidy sources and the consequences of the front-end negotiations that took place among the parties. Projecting the sustainability of HOPE VI redevelopments requires developing a set of contingencies based, in part, on these legal and contractual arrangements—as well as market changes and the regulatory oversight or controls that PHAs may (or may not) have in place. The interrelationship among these factors raises interesting questions that should be explored in a full-fledged assessment. For example, might long-term ownership by an owner/manager entity lead to a better sustainability outcome than a shorter-term ownership/lease entity with an "exit strategy" after a specified period of time (for example, after the LIHTC compliance period has ended)? Or, does a fixed subsidy, or budget-based need subsidy, arrangement with a PHA versus a percentage pass through arrangement automatically result in different outcomes? Document review also made clear that a full-fledged assessment should sort out the different points in time at which sustainability might be a concern at each redevelopment—based on the terms that had been negotiated.[45]

***2. Financial issues.*** Four interrelated financial issues emerged that could have a bearing on redevelopment sustainability. Three of them, involving insufficient rent revenues related to ACC-supported units, insufficient security deposits on those units, and reduced operating

[44] Details on what triggers the transformation process and what might result vary from redevelopment to redevelopment.

[45] For a full-fledged assessment, document review would require specialized legal expertise to be able to interpret the finer points of the various agreements that have been negotiated at each redevelopment.

subsidies, can contribute to the fourth—the need to draw on operating reserves. It is the use of such reserves that can trigger transformation clauses written into regulatory and operating agreements between owners and PHAs. There is certainly interest on the part of HUD, PHAs and others in keeping a portion of the HOPE VI portfolio in use as affordable housing but, should transformation occur, some or all of a redevelopment's below-market units could convert to market-rate.[46]

In both redevelopments, rent revenues plus PHA operating subsidies for ACC-supported units have been insufficient to cover associated costs and, beyond that, owner representatives indicated it has been difficult to anticipate all operating costs. That will likely not change because the amount of revenue (rent plus ACC operating subsidy) an owner can receive from an ACC-supported unit is relatively fixed at a maximum amount. This is because if the rent revenues obtained from tenants living in such units increase as their incomes increase, the ACC subsidy will be reduced in response. Furthermore, in the case of one of the redevelopments, the proportion of units that are ACC- or LIHTC-subsidized increased above what had been initially planned, thereby reducing the number of units for which market rents are charged. As a result, income from the market-rate units has not been able to cover the revenue shortfall given what had originally been anticipated.

Though neither redevelopment had been operating outside of its budget, staying within budget has been difficult in both instances. As put by one of the parties, "If you cannot stay within the operating budget in HOPE VI, the project will fail. It has been a struggle to stay within budget."[47] The extent to which insufficient funds (rent plus ACC operating subsidy revenues) is a widespread concern could depend on several factors, including the number of market-rate units in a redevelopment and local housing-market strength related to market rate units. Unlike Section 8 Housing Choice Voucher subsidies, however, Section 9 ACC subsidies are not tied to the local rental market or costs and, hence, may lag further behind. ACC subsidy amounts traditionally were set by HUD for the purposes of supporting conventional public housing units owned by PHAs, irrespective of how much of the subsidy funds are passed on to one or more HOPE VI redevelopments. Perhaps HUD's recent asset-based budgeting requirements provide more flexibility, or more reality based subsidy determinations, which could either improve or worsen the viability of HOPE VI redevelopments. At a minimum, however, it appears as if the sufficiency of rent revenues and operating subsidies is a key issue whose potential effects need to be better understood.

A second financial challenge can stem from insufficient security deposits for ACC-supported units. Managers have found that the work needed to prepare a rental unit for re-occupancy varies by market tier, with ACC-supported units often requiring significantly more work than market-rate units. Cost differences result both from materials and labor hours. Staff members at one redevelopment observed that the security deposits required from renters of ACC-supported units amount to approximately three percent of the total repair cost, on average. Depending on

[46] Such a transformation outcome could be affected by the perceived market demand for market-rate units. For example, should an owner determine that demand was likely to be low, other outcomes might be sought than conversion to market rate.

[47] Here and elsewhere, quotations represent paraphrases of comments made during interviews, as there were no transcriptions.

turnover rates among such units, unit-preparation represents more of a financial burden than had been anticipated.

Third, when operating subsidies are reduced to PHAs, this reduction is passed through to owners. In at least some early HOPE VI redevelopments, operating subsidy agreements were structured such that the subsidy was not tied to the HUD subsidy but to budget reviews and operating needs, or set at fixed amounts that remained the same regardless of changes in PHA budgets. Subsequently, PHAs structured agreements so that they provided HOPE VI redevelopments with a percent of the authority’s operating funds, therefore allowing them to pass along any reduction to them. Under this type of agreement, the redevelopment cannot be assured a consistent amount of operating subsidy over time. Obviously, an increase in HUD subsidies to PHAs can benefit HOPE VI redevelopments but decreases can cause budgetary problems. At one redevelopment, the value of the operating subsidy was reduced before management was notified of the change. Staff members were unable to plan for the reduction of approximately $40 per month per ACC unit. Because of this reduction, the redevelopment has had to tap into its operating reserves. Together, the issues of subsidy reductions and use of reserves could lead to an eventual loss of ACC-supported units.

The fourth issue, use of reserves, can serve as a trigger for submission of a transformation plan. As staff at one site explained, if their operating reserve falls to a certain level, by legal agreement they must submit a transformation plan to the PHA. While they are not yet at that trigger level, the reduction in operating subsidy has led management to tap their reserves. Not all HOPE VI redevelopments have the same arrangements regarding transformation, however. According to one of the owners, transformation of subsidized units to market rate rents could happen only if the redevelopment lost its *entire* ACC operating subsidy. They structured subsequent HOPE VI redevelopment deals along lines similar to that of the other redevelopment so they could begin a transformation process if the owner were to lose *a portion* of operating subsidy.

An owner submitting a plan for transformation to its PHA partner does not mean that ACC-supported units will necessarily be lost. The PHA, for example, can choose to replenish operating reserves if it has the resources with which to do so. On the other hand, if the transformation plan involved the owner no longer accepting an ACC subsidy, the units could then be rented at market rates. Even if the transformation plan were accepted, however, the terms of workout would vary by agreement. Any LIHTC units or units subsidized with other public funds would not be affected by this change unless some of them were also ACC subsidized, and those would still be regulated by any covenants that applied to such units. At minimum, LIHTC units would continue to serve the intended income tier for the period of time that had been negotiated, but at least for 15 years—and, in many instances, well beyond that.

Transformation clauses are meant to protect the interests of the owner as well as those of lenders and investors. If the property has insufficient revenues to be able to operate and cannot pay off what are typically revenue bonds, then the lender would seek a transformation in order to boost revenues—assuming the transformation to market-rates would increase operating income at that point. In the words of one participant, “we made a commitment to serve public housing residents and are meeting our side of the deal, but if doing so is made impossible [because of insufficient operating subsidies], transformation would be okay." Another possibility is that lenders and/or investors could demand that an owner seek transformation because, upon default in payment of the private loans, the lender could step into the owner's shoes.

Financial challenges, therefore, have the potential to lead to a loss of ACC-supported units. Even with only two redevelopments to consider, it is clear that how that might take place, or the likelihood it may take place, can vary. Transformation triggers can differ across redevelopments, even those that may be owned by the same company or organization. The worst case outcome, loss of subsidized housing units, could also vary with a PHA's ability to replenish operating reserves or with other conditions associated with implementing a transformation plan. A better understanding is needed as to how various reserve accounts and guarantees work, as stipulated through contractual and financial agreements, to assess the longer-term financial prospects of any particular redevelopment. Short of reviewing agreements between the partners, it is not possible to know the scope of the transformation challenge to the HOPE VI portfolio.

***3. Management and community building issues.*** Key management and community building issues that could affect sustainability include vacancy rates, management turnover, resident services, management and resident associations, and safety. While some of these appear to have more direct impact on sustainability than others, they were each identified as important in one way or another.

Though turnover rates *per se* were not a concern for either redevelopment, officials of one of the ownership entities focused on a related problem—the length of time it takes to reoccupy ACC-supported units. Management reported that at any given time there might be as many as 20 vacant units, in part due to the rate at which management receives information on prospective tenants from the PHA. The PHA commitment to give priority to former tenants of the demolished property who meet their screening criteria can serve to slow occupancy. PHA staff reported that the screening required by the property manager is more extensive than that performed by the PHA, since each HOPE VI redevelopment establishes its own reentry criteria for former public housing residents. In the other redevelopment, the PHA does not do extensive screening of prospective tenants; names forwarded by the PHA have met only limited screening, with the more extensive screening done by the owner. In either case, however, there are two screening periods that include a criminal background check, landlord referrals, and a credit check. Given the length of the process, a redevelopment might go through three or four referrals from the PHA before finding a tenant who passes all of the screening requirements. Therefore, the entire process to lease an ACC-supported unit can take from two weeks to a month or more. Staff expense and the lost rental income related to filling vacancies can be significant.

Residents at one of the redevelopments raised the issue of turnover in management companies as a problem, citing both general confusion about knowing who the manager is and more specific problems related to such changes.[48] In the most general sense, residents talked about a disconnect between staff and residents, saying management staff need to make themselves known to everyone in the property and improve communication. Management turnover can have an indirect impact on reputation and, therefore, sustainability if it leads to

[48] The number of companies that have managed the development was not determined.

frustration among residents and widespread negative perceptions. Specific concerns involved lease agreements and maintenance. One resident described communications gaps with staff over rent payments, changes in utility payment requirements, and changes to the frequency with which the rental lease is renewed. In particular, the resident said the lease has been revised each time there has been a change in management companies. Another resident recounted a problem with the replacement of damaged doors, attributing the unsatisfactory resolution of the problem to manager turnover.

From the perspective of managers and owners, resident services are important to the success of a redevelopment. In addition to offering direct benefits to residents, services are seen as having a potential impact on development costs and revenues. As one owner put it, “resident services are necessary for a property to survive; without them the program will fail.” It should be noted that resident services are not funded by ACC or LIHTC subsidies such that owners have looked to fund services from the budget for the unsubsidized portion of the redevelopment. While this may be one of the advantages of including both unsubsidized and subsidized units in the same redevelopment, there is no guarantee that such funding can always be found.

Services that were viewed as critical include GED classes, tutoring, job placement, computer centers, and childcare. In addition to services made available by the redevelopment or through partnering organizations, PHA staff members who work with one of the sites also assist in what might be viewed as resident training—working with tenants in ACC-supported units to understand private management’s expectations regarding home maintenance standards. Staff from both redevelopments talked about the need to train residents in property care, since that can reduce maintenance costs. Management staff viewed education and employment-related services as ways to increase the earning potential of subsidized tenants, which they recognized as having a potential impact on rent revenues.[49] For ACC-subsidized residents, however, that may not apply, since increased resident incomes, leading to increased rent payments, will also result in reduced ACC subsidy payments.

The topic of resident associations—how they are structured and the relationship between an association and the property management—is salient for both property owners and managers. Most of the discussion on this topic, however, tended to focus on a range of issues that concerned community life rather than redevelopment sustainability, though the two are undoubtedly connected. The structuring of residents associations—including why they are established, their member composition, the nature of the relationship with the owner, the PHA and management, and their responsibilities—is likely to be diverse, and certainly differed between the two redevelopments. The responsibility an association has can have a direct impact on a property. For example, in one of the redevelopments, responsibility for landscaping has been given to the resident association. Initially, the group maintained landscaping on common areas and for the rental properties. Once problems arose on boundaries between rental and homeownership units, the association took over landscaping for the entire redevelopment. The association also takes care of community problems, such as responding to a report of an abandoned vehicle. Its ability to meet these responsibilities is dependent upon receipt of fees from

[49] It is possible that managers and owners view increases in tenant incomes that result in increased tenant rent payments as helping to make up any shortfall in operating subsidy resulting from HUD Section 9 reductions to the PHA that are passed on to the owner.

residents, with the PHA covering the fees for residents in ACC-supported units. Should there be a shortfall in fee revenues, the curb appeal of the redevelopment would likely be affected, which could dampen interest on the part of prospective residents.

There were some issues with respect to safety in both redevelopments, which were attributed to problems existing in the larger neighborhood, such as non-residents passing through the redevelopment or people who live nearby causing trouble. Though staff and residents from one of the redevelopments reported few such problems, management was installing security cameras and improved lighting. The other redevelopment appears to have more safety and crime problems, though it was not possible to estimate the extent of the problem absent other data.[50] Residents did report problems including drug activities, break-ins of units and cars, and building access by non-residents, as well as loitering. Indeed, residents of some of the redevelopment's buildings requested that a security guard be posted in the lobby to deal with nonresidents who enter the building. According to management, some residents allow nonresidents to enter secure buildings even when they do not know them. There has been property theft from common areas and some residents feel less secure. Another complaint has involved youth loitering in common areas and problems with doors in such areas being broken multiple times, only to be replaced with lower-quality doors.

Management at both redevelopments is aware of issues involving safety and crime and has taken steps to address them or suggested changes that residents can make. The importance of the issue is clear with respect to reputation and, therefore sustainability—especially with regard to market rate rentals or homeownership units. Indeed, crime-related issues associated with at least one of the redevelopments have been posted on the Internet via websites that contain customer reviews of rental properties.

***4. Maintenance issues.*** Management, PHA staff and residents all focused on certain property maintenance issues as prevalent. For instance, water leakage was apparently a concern at both redevelopments, a point that was confirmed in HUD REAC reports on the properties that noted not only water leaks but also broken seals on windows and doors and related issues. However, staff and residents of both redevelopments indicated that such problems had been addressed quickly. Indeed, the residents who were consulted generally did not express concern about property maintenance, and most spoke favorably about the overall quality of construction and property upkeep. The one issue that had caused concern involved responsibility for landscaping in one of the redevelopments. As previously discussed, the issue was dealt with by placing the resident association in charge of this function; and, as noted, the association's ability to carry out this expensive work is dependent on its ability to collect association fees—which has not always been effective.

***5. Resident interactions*.** Aside from the social value of building a community that contains a diversity of incomes and housing tenure types, there is a sustainability issue associated with the quality of resident interactions. If resident interactions are contentious or conflict ridden, not only does that have an impact on the quality of life of current renters and owners but also on the reputation of the redevelopment within the community at large.

[50] Such data are available and, in a more extensive assessment, would have been gathered and analyzed.

There is little sign of resident conflict at one of the redevelopments and only minor suggestions of conflict at the other.[51] To the extent to which this issue arose during interviews with staff and residents, it involved the potential causes of conflict. The primary sequence, it appears, relates to disputes among children that spill over to adults. Staff reported that it was very important to intervene quickly in such situations to keep problems from growing. Beyond that, there were resident reports of youth sometimes "hanging out" in common areas and damaging property. Management tended to see this issue as related to building design—the inclusion of common areas—with the implication being that it was difficult to address as a management issue.

The most common concern voiced by residents at both redevelopments was that there were few organized opportunities for interactions among renters and between renters and owners. Though some people expressed interest in having such activities and other chances to meet and socialize with neighbors, there appears to be a reliance on management to initiate them. One of the redevelopments does plan an occasional "community day" to involve all residents in clean-up activities, but such events do not appear to be a high property management priority. Management at the other redevelopment had previously organized some community activities but no longer does so.

**Summary.** Most of the issues discussed above would be of concern to any housing development but can be especially significant for HOPE VI redevelopments because of their unique range of income, tenure, ownership and management configurations. While the program's flexibility along these lines is clearly a strength, it also presents a challenge with respect to long-term sustainability. To assess this challenge, a full-fledged assessment should incorporate the following:

- **Consideration of the variability in regulatory and operating arrangements that exists across redevelopments, especially involving the terms of transformation—what can trigger it and what the possible outcomes might be.** Issues that need to be addressed include: (a) the number of housing units affordable to low-income households in both the medium-term and long-term, should a reduction in operating subsidies or imbalance in income-to-expense ratios put the subsidized portion of the redevelopment at risk; (b) the nature and extent of monitoring that is taking place by both owners and PHAs with respect to the potential for transformation; and (c) the potential consequences for those requiring housing subsidies should there be a reduction in the number of subsidized units.

- **Consideration of any management issues that may grow out of the relationships that have been established between PHAs and private owners and managers, which could contribute to inefficiency or add expense.** As observed in the two redevelopments, for example, the processes for filling vacant ACC-supported units can lead to delays in leasing that, in turn, can result in lost rent revenues. Is such a

[51] This, however, is not likely to be a universal experience with respect to HOPE VI redevelopments. The apartment finders' website, referred to above (see footnote 32), contains numerous resident-supplied examples of conflict, including inter-class and inter-racial hostility, in several HOPE VI redevelopments, suggesting this may be an issue in some places.

problem significant enough to suggest reexamining some of the arrangements between PHAs and managing entities, or the problem widespread enough to suggest the provision of guidance from HUD in any subsequent HOPE VI arrangement?

- **Consideration of the need for, and ways to support, resident services or other initiatives to further resident interactions and community relationships.** While there is recognition by owners, managers, PHA staff and residents for certain types of services and community activities, providing them can be costly and is often a challenge to property management entities that are not necessarily equipped to provide social supports. While the relationship between this issue and sustainability is not simple, there is clearly the potential for either positive or negative impact on a redevelopment's reputation and, therefore, its ability to attract (especially) market-rate renters and homebuyers.

- **Consideration of the partnership arrangements existing across HOPE VI redevelopments, and promotion of those contributing to long-term sustainability.** Relationships among PHAs, owners, managers, and residents differ across redevelopments, and are often complex. They need to be better understood, with an eye to establishing those most conducive to ensuring that the redevelopments are sustainable over the longer term.

## VII. Next Steps in Assessing HOPE VI Sustainability

HOPE VI redevelopment sustainability is an important issue. The program represents a major public investment that affects households in need of housing assistance as well as the communities in which the redevelopments are situated. The HOPE VI model of mixed financing, ownership, management, income and tenure is very appealing from many perspectives. Whether it is sustainable, however, is not known.

Information that can be used to maximize a redevelopment's chances of being sustainable, by identifying problems before they become intractable and seeking ways to mitigate them, *can* be collected, as evidenced by the above—although not all PHAs, owners or managers would likely participate. To gain the cooperation of those who might, an assessment needs to be constructive, proactive, and done independently, with the objective of assisting participating redevelopments as well as informing public policy with respect to the future of HOPE VI-like programs.

> "Information that can be used to maximize a redevelopment's chances of being sustainable *can* be collected."

Recommendations for next steps include:

- **Supporting development of a larger, more extensive sustainability assessment.** The number of participating redevelopments should be large enough include a diversity of partnership models and arrangements as well as variations in local economies, housing markets, and community types.

- **Ensuring that the larger effort involves the appropriate professionals.** This includes persons with specialized expertise in real estate contract law, accounting and finance, architecture/engineering, and property management. Such experts would help to both develop additional protocols and analyze (both quantitatively and qualitatively) the information gathered through them. Such experts would have to be free of any interests in the particular redevelopments to be assessed, to ensure the trust of those who participate and maintain the confidentiality of information that would be reviewed.

- **Recognizing that a sustainability assessment will be expensive, but worth the cost given the potential for helping to ensure the long-term viability of a significant affordable housing asset.** Because individual assessments will require site visits by researchers as well as the practitioners indicated above, who will help to review and consider the information collected at each redevelopment, the operating presumption is that the cost per assessment could be about $100,000. Therefore, a reasonable effort involving 10 redevelopments, selected to be representative of different types of properties and arrangements, would cost about $1 million. That, however, is a small fraction of the total public investment in the HOPE VI program, and could contribute to recommended practices benefitting the full portfolio of HOPE VI redevelopments.

- **Engaging the support of HUD.** To this point, HUD has not been involved in sustainability assessment, yet the HOPE VI program has been a major HUD initiative. Furthermore, the long-term success of HOPE VI is central to HUD's mission. Observations from a full-fledged assessment would also be important to HUD's policy development process with respect to promoting affordable housing—not only for the HOPE VI program but for any successor program with complementary objectives. Gaining the cooperation of HOPE VI redevelopment principals, however, depends on HUD not seeking to use a sustainability assessment as a monitoring or regulatory tool, or for the primary purpose of evaluating the HOPE VI program.

- **Building on, expanding, and enhancing the present report's approach that seeks to support HOPE VI sustainability while simultaneously informing the policy community and interested public with respect to affordable housing initiatives.** Topics that need to be examined in greater detail include PHA-owner relationships, housing market conditions, property management strategies, financial performance, and transformation contingency analyses. A full-fledged assessment should also cover property maintenance, physical condition, turnover, significant governance issues, management-resident communications, resident satisfaction, social interactions, and the systems and processes both PHAs and owners use to track viability and forecast future sustainability. The end goals are to: identify, systematically, key leading indicators of sustainability challenges that if left unattended could become intractable, and then consider solutions to alleviate them before that happens; alert HUD to the need for any programmatic reforms that could reduce sustainability risks to the existing portfolio; and inform policy development for any future HOPE VI-like programs.