

issue brief:

A Strategic Approach to Building Affordable Housing in Philadelphia

By Alan Mallach

Commonwealth Housing Development Corporation, NeighborhoodsNow, Philadelphia Association of Community Development Corporations, Women's Community Revitalization Project

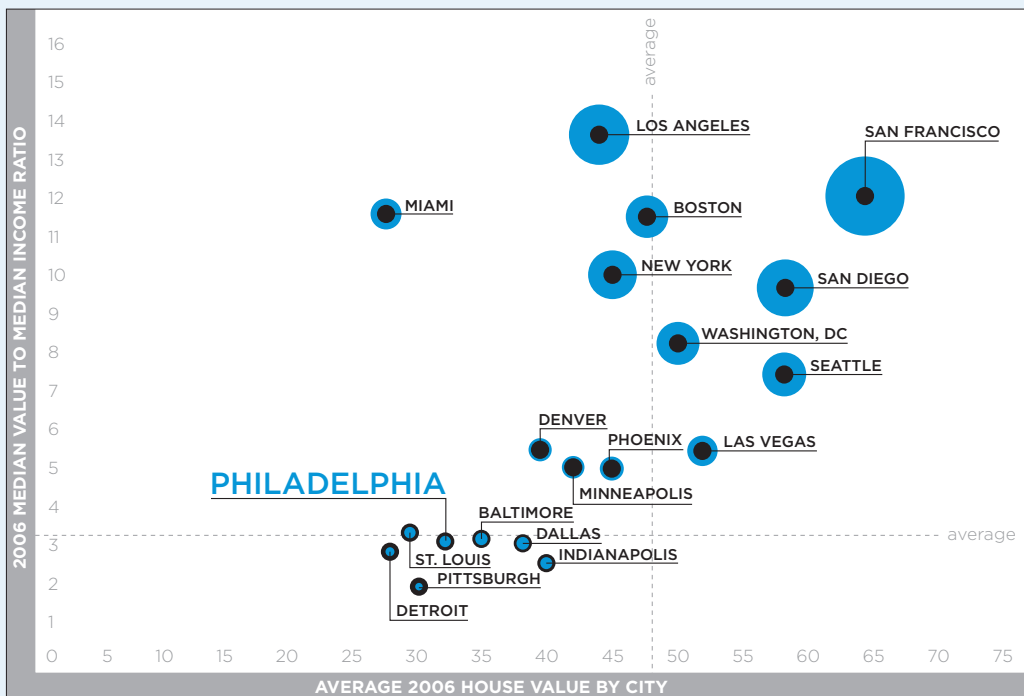
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This paper proposes that the city coordinate affordable housing production subsidy investments with other major private and public investments in order to ensure that all new developments contribute not only to meeting lower income housing needs, but to making the city and its neighborhoods economically stronger. New affordable housing, with provisions for long-term affordability, should be targeted to neighborhoods with an active private market or substantial public investment, such as a new school, in order to encourage lower income households to take advantage of the amenities private investment attracts and to create sustainable mixed income neighborhoods.

Elsewhere, affordable housing should be linked to comprehensive revitalization strategies designed to build stronger mixed-income neighborhoods, rather than simply adding more housing units that may undermine already weak private markets. High standards for design, planning and long-term maintenance of affordable housing should be established, to ensure that all housing that is built enhances the quality of life and property values in the surrounding neighborhood. Important as these principles have always been, they have become even more critical in today's national and local economic crisis and housing market downturn.

smart location + energy efficient, attractive design + reuse of existing properties + long term affordability

PHILADELPHIA HAS SOME OF THE LOWEST HOUSE PRICES AND HOUSEHOLD INCOMES OF ANY MAJOR U.S. CITY



Philadelphia

2006 Average House Value
\$115,500

Median Household Income
\$33,229

2006 Median Value to Median Income Ratio
3.5

■ Average 2006 House Value ■ U.S. Average
Home prices and income data from 2006 American Community Survey. Ratios determined by Econsult Corporation.

Philadelphia's Housing Market is Characterized by Low Market Values and High Construction Costs

Philadelphia is a city with more housing than households to fill them, high construction costs and low residential market values and this creates a critical need for a strategic city approach to affordable housing production.

Philadelphia is still shrinking, losing households between 2000 and 2006 at an average level of 6,000 households per year.¹ As a result, the city has a housing surplus. Most of the vacant units that make up this surplus are old and substandard, and either obsolete or in need of repair.

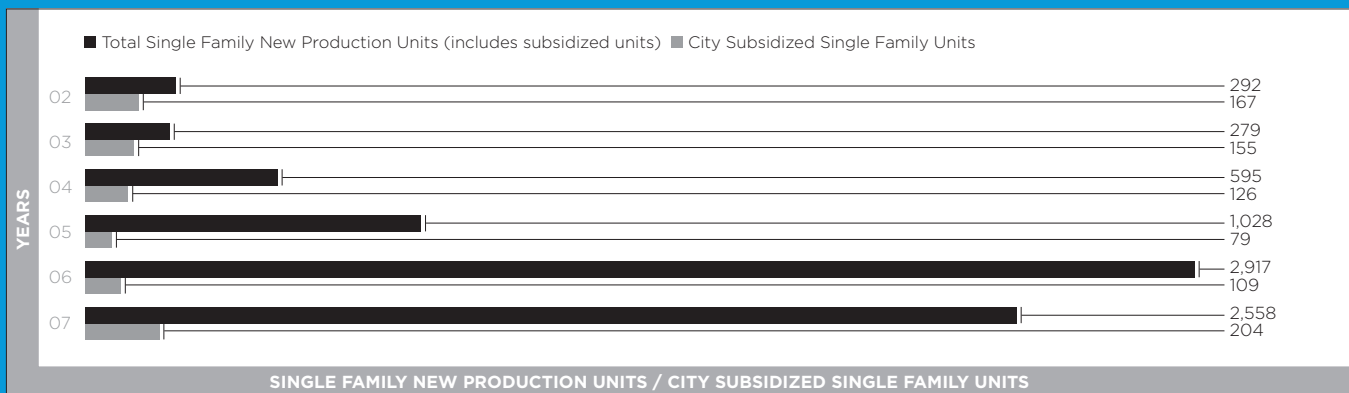
Construction costs are some of the highest in the nation. The cost of construction materials in Philadelphia is 7% higher than the national average.² The cost of construction labor is 39% above the national average.³ At the same time, **sales prices for new homes in Philadelphia are relatively low.** The combination of low property values with high construction costs leads to a massive 'market gap' in large parts of the city, where government subsidy is needed to pay for the gap between the cost to build a house or apartment and the price buyers are willing or able to pay for the building upon its completion.

Due to the need for substantial subsidy in order to construct new affordable housing, the number of affordable units that the city can fund are relatively small compared to the

need. A city subsidy leverages much larger subsidies from the state and federal governments, as well as financing from the private sector. It is therefore important that city money continue to be used to leverage this funding to create new units, but it is also clear that with limited government subsidy dollars new affordable housing production can not replace all of the obsolete homes in the city. Over the past five years, the city provided partial subsidies for the construction of between 400 and 700 affordable housing units annually. Over the next few years, because of the downturn in the housing market, the city's ability to provide subsidies may be even less. The number of households living in housing that need major repairs or has major systems that are not working is much greater. For instance, in 2006, almost 8000 households lived in housing that didn't have a working bathroom or kitchen.

While housing in Philadelphia costs far less than comparable housing in many other large American cities, **Philadelphia households earn less than in other large cities.** While by national standards our housing is very affordable, the city's low incomes make rent and sale prices out of reach for many Philadelphians.

STARTING IN 2004, NEW PRODUCTION OF PRIVATE MARKET HOMES GREATLY EXCEEDED AFFORDABLE CITY SUBSIDIZED UNITS



Source: Total homeowner new production single family units data are provided by Econsult Corporation, and are based upon Philadelphia Board of Revision of Taxes 2006 property tax data. (These numbers do not include condominium units in multi-family buildings.) Subsidized units represent all homeowner units subsidized by the city and were provided by the City Office of Housing and Community Development on May 20, 2008.

1 Based on a comparison between the 2000 Census and the 2006 American Community Survey, between 2000 and 2006, Philadelphia lost 50,000 family households and 10,000 non-family households, a loss that was only partly made up by a gain of 24,000 single-person households.

2 RS Means Cost Data

3 RS Means Cost Data

1. Geographic Targeting

Where should we build new affordable housing?

2. Design Standards

How can we build new affordable housing so it contributes to building healthier, more sustainable communities, making the city stronger fiscally as well as socially?

3. Economic Mix

How can we best address the full range of housing needs while fostering economically integrated communities?

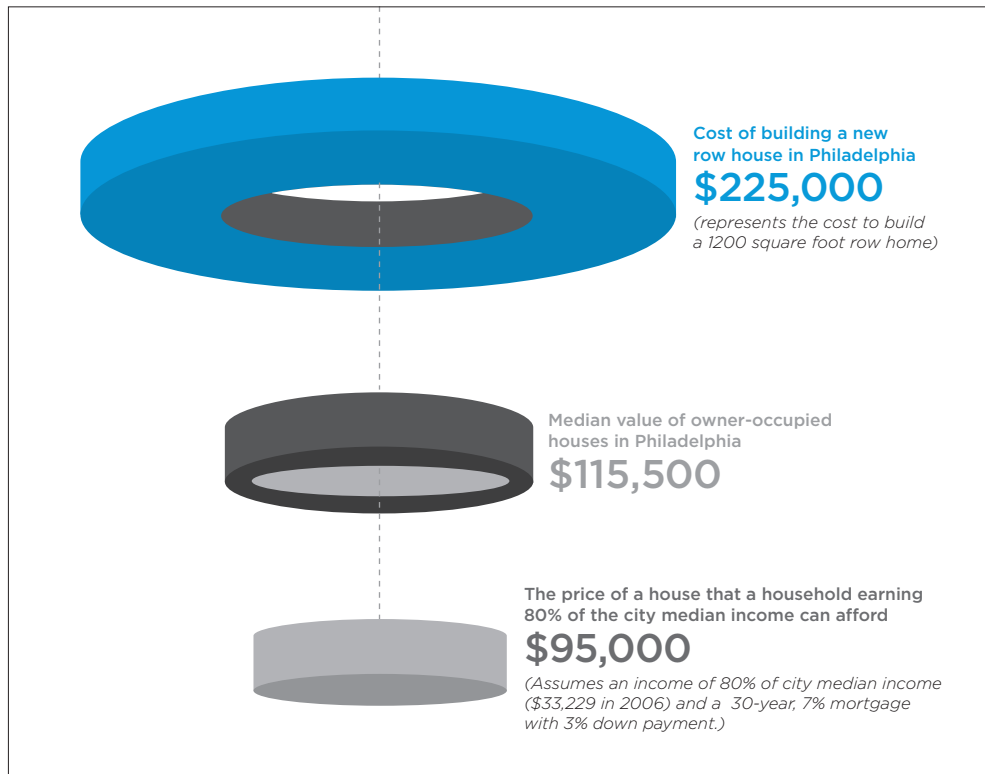
4. Long-term Affordability

How can we ensure that the housing we build today remains affordable for future generations?

Building new affordable housing is not in itself a strategy for addressing Philadelphia's housing concerns, but can be part of that strategy. This paper will address how Philadelphia can use a strategic approach to building new affordable housing to help address its housing needs while building stronger neighborhoods and a stronger city.

Given that city subsidy dollars are limited and city subsidy is required to build affordable housing in Philadelphia, it is essential that the city adopt a strategic approach to coordinate housing investment with other types of investment and enforce design standards that will fit within and improve the neighborhood.

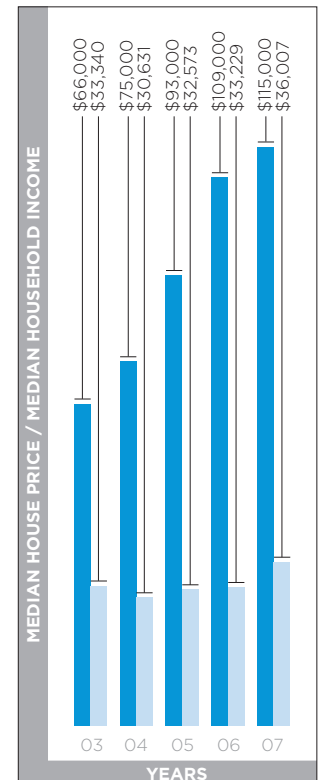
COST TO CONSTRUCT A ROW HOME EXCEEDS ITS MARKET VALUE IN MANY NEIGHBORHOODS



Philadelphia's construction costs increased by 247% during the past thirty years. Today Philadelphia's construction costs are approximately 19% higher than the U.S. urban average. As a result, the cost to build a home often exceeds its market value.

Building Industry Association: Analysis of Inclusionary Zoning Bill #071005-A, Econsult (May 2008).

HOUSE PRICES ARE CLIMBING WHILE INCOMES SEE MINIMAL GROWTH



■ Median House Price
 ■ Median Household Income

The house price data is based upon an analysis of deeded title transfers at the Philadelphia Department of Records. The income data is derived from U.S. Census and and Bureau of Labor Statistics data.

1

The Location of Affordable Housing Matters

Philadelphia should coordinate city subsidized housing investment with other public and private housing, commercial, transportation and other investments to an area.

Philadelphia has a surplus of affordable houses but it needs *better* units, units that not only provide affordable housing to those who most need it, but which—by virtue of location, design and amenities—make the neighborhoods where they are built better places to live. These new affordable units can help to create economically diverse neighborhoods with stronger markets and private development activity.

Affordable housing will have the greatest power to add affordability to the area's housing stock in neighborhoods where the private market is active. When affordable units are built in distressed neighborhoods where there is low demand, high vacancy rates and already low market rents and sales prices that are comparable to new units being built, subsidized new production that does not push the market can become a liability, discouraging property improvement and private market investment. In neighborhoods with active private housing markets and significant recent investment, quality new affordable units will enable the creation of a mixed income neighborhood and will also allow new lower income residents to take advantage of the amenities that new investment brings with it—a safer, better maintained neighborhood with new retail opportunities.

Develop affordable housing in low property value areas where it is part of a larger revitalization strategy, and adds quality as well as quantity to the neighborhood.

While targeting new affordable units to neighborhoods that are experiencing private market investment may offer the best opportunity to create mixed income neighborhoods, in some cases affordable housing can be an integral part of a market-building strategy for a weak market neighborhood. It can contribute to building neighborhood strength by turning a former eyesore, such as an abandoned property, into an attractive new development, or it can be part of a mixed-use development that adds valuable services to the community. Affordable housing that is developed in low property value areas *must* contribute to improving the neighborhood in some clear fashion, over and above adding housing units to the inventory. In this fashion, affordable housing will contribute to the city's fiscal as well as social well-being. Housing also should be linked to economic opportunity, by prioritizing sites that offer their residents good access to employment opportunities.

- **Coordinate affordable housing development with other investments, including private market construction, new school construction, open space and transportation improvements.**
- **Target areas for affordable housing which provide particular opportunities for improving the economic conditions of Philadelphia's lower income residents, including areas close to transit lines and major employers, such as hospitals and universities.**

Affordable Housing Design and Income Diversity are also Important

Philadelphia should adopt standards to ensure the *quality* of the housing—design, site planning, energy efficiency and all of the factors that go into determining whether a project will have a positive long-term effect on the community as a whole.

Good design and site planning is not merely a matter of 'pretty' architecture. It is a matter of designing buildings and placing them on their site and in their setting in ways that enhance the quality of life for the residents of the housing—through attractive and usable open spaces, good security, energy efficiency and comfortable, livable houses and apartments—as well as for the people who live around the development, or who walk by it along the street. The City of Philadelphia should create a body of standards to ensure that city subsidized housing units are energy efficient and high quality, and actively enhance the communities in which they are built.

Prioritize sites for affordable housing

in areas which are experiencing market change, or major public investment, while supporting continued private investment in those areas.

Avoid excessive concentrations of affordable housing—

particularly rental housing — that may discourage private investment and desirable market appreciation.

Develop affordable housing

in low property value areas where it is part of a larger revitalization strategy, and adds quality as well as quantity to the neighborhood.

- **Establish high standards for design and site planning of all new affordable housing developments, to ensure that every new development both fits in with and enhances its surroundings.**
- **Establish high standards for energy efficiency and durability of materials in all new affordable housing developments.**

Higher standards may result in fewer units in the short run but will contribute to the viability of the units and their surrounding neighborhoods in the long run, fostering a stronger rebound from the current market slowdown. First, greater focus on durability and efficiency will mean lower life cycle and replacement costs over the life of the project, both saving money and reducing the risk of unanticipated operating budget holes or unexpected replacement needs. Second, greater design quality and livability, with respect to both initial construction and ongoing maintenance, will add not only to the value of the project, but to the value of its surroundings, leading to increases in property values and greater tax revenues for the city of Philadelphia. Third, and perhaps most importantly, we will be creating housing that will be healthier and more affordable to Philadelphia's lower income residents in the long run. The city should resist pressures to cut corners in the current housing crisis, and remember that new affordable housing is being built for the long-term, not just the next few years.

The right design may involve reuse of existing buildings. Creating new affordable housing does not necessarily mean building new buildings. Our city has a rich treasure trove of historically and architecturally valuable older buildings of all kinds that lend themselves to reuse as multifamily housing, while helping to restore the fabric of the neighborhoods of which they are part. Preservation includes both saving private market housing that is livable but falling into disrepair, which can often be done at less cost than building new housing, and reusing vacant buildings such as factories and schools, which are often readily adaptable into a variety of housing types. Preservation is not only often more cost-effective than new construction as well as being a more sustainable strategy utilizing existing resources, but helps maintain the fabric of the city's existing housing stock and older neighborhoods, one of Philadelphia's greatest assets.

Affordable housing must provide for a diverse mix of income levels, including the poorest households.

Most affordable housing today is built for households earning from 50 to 80% of area median income. (For a family of four, 50% of AMI is \$36,050 and 80% is \$57,680). Yet it is even poorer Philadelphia households who have the most severe housing problems. Building stronger neighborhoods means building mixed income neighborhoods, which offer room for low-income families within an economically diverse community. Affordable housing should be integrated upward—with moderate income and market-rate housing—and downward, to reach the lowest income households. Meeting the needs of Philadelphia's lowest income households will require directing additional subsidies to Low Income Tax Credit affordable rental developments. Project-based Housing Choice Vouchers, where available, can be used for this purpose. To the extent that the supply is inadequate, continue to use Philadelphia's Housing Trust Fund grants and explore other potential resources. The city should explore other creative strategies to help developers achieve this goal, including allowing developers to capitalize internal operating subsidies into the development budget, or provide long-term tax abatement (30 years or more) keyed to the percentage of units that will be set aside for the lowest income households.

Establish high standards for design and site planning of all new affordable housing developments, to ensure that every new development both fits in with and enhances its surroundings.

Establish high standards for energy efficiency and durability of materials in all new affordable housing developments.

Create new housing through reuse of existing buildings, including both preservation and upgrading of substandard private market housing and adaptive reuse of highprofile older structures such as factories, schools and large apartment buildings.

Legal Controls Can Ensure Long-Term Affordability

Legal controls can preserve the long-term affordability of city subsidized units.

Establishing and maintaining long-term affordability controls on affordable housing projects can be controversial, but reflect important principles. Taxpayer dollars are used to subsidize the creation of affordable housing through government subsidies. Stewardship of those investments dictates that they continue to benefit as many low income households as possible over the useful life of the investment. In recent years, hundreds of millions in public funds have been used to keep projects with expiring use restrictions affordable. If those units had been developed subject to long-term affordability controls, all of that money could have been used to add new units to the affordable housing inventory.

These principles apply not only to rental housing, but to affordable home ownership as well. While creation of individual wealth through house value appreciation is desirable, it should not be entirely underwritten by public subsidies at the cost of losing units urgently needed by other families. Appropriate controls that balance these goals, enabling lower income homebuyers to gain some appreciation, while preserving most of the value of the subsidy for future families, should be developed and adopted.

Second, if Philadelphia, as we all hope, rebounds from the current difficulties, and market values once again rise throughout the city, it will become increasingly difficult

and expensive in the future to build new affordable housing to replace that which may be lost. It is therefore important to plan for success now and ensure that city subsidized affordable units remain affordable in the long-term.

- **Require appropriate provisions to ensure that appropriate newly constructed affordable housing remains affordable on a long-term basis.**
- **Explore creating one or more vehicles to monitor affordable housing projects and ensure that they continue to remain affordable to and occupied by lower income households.**

Ensuring long-term affordability is not a self-administering process. It requires careful ongoing attention over time, as units turn over and are re-sold or re-rented, while developers and CDCs may come and go. A citywide entity—which can be a public agency, a non-profit corporation, a community land trust, or something else—to carry out this function in a responsible and consistent fashion would be a valuable addition to the city's affordable housing toolkit. Part of this entity's mission should be to foster opportunities for conversion of rental housing—including tax credit projects at the end of the holding period—into homeownership opportunities, including limited equity cooperatives and condominiums.

Conclusion

New affordable housing production can enhance Philadelphia's neighborhoods if the units are located near private or major public investments, offer quality design, accommodate a diversity of households and in some cases, include protections to ensure affordability over the long term.

In the past, affordable housing has been scattered across Philadelphia and much of it was built in neighborhoods that offered few amenities to new residents. By adopting standards as to where and how affordable housing is built, the city can strengthen neighborhoods, the economy and ensure that every affordable unit makes the city a better place to live. These points are as important as ever in the current economic crisis. Although house prices in Philadelphia have fallen moderately during the past year, the need for affordable housing is as great as ever. Private market construction has slowed and housing trust fund revenues are down, as are potential sources of Low Income Housing Tax Credit investment. Over the next few years, the limited resources that are available must be used even more carefully and strategically.