

MACARTHUR

A newsletter from The John D. and Catherine T. MacArthur Foundation

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SPRING 2005
VOLUME I

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How housing matters

The MacArthur Foundation has committed \$100 million in grants and program-related investments to the field of housing. While education, health care, and workforce development often receive more attention, there is mounting evidence that housing is a critical factor in opening opportunity to individuals and improving communities. Housing matters.

Recent studies have found that decent, stable housing improves the ability of individuals to get and keep jobs, increases psychological and physical health, and leads to better social behavior and school achievement among children. Other studies link the availability of affordable housing to the economic vitality of cities and regions.

These benefits may seem intuitive, but we need to know more in order to align local, state, and federal policies in a way that reinforces stability, access, and opportunity for families and communities. For it is not altogether clear how and under what circumstances housing matters for people and places. How is housing related to individual and neighborhood stability? What is the precise relationship between housing and better opportunities for children and families? Does ownership make

the crucial difference? What are the other important factors — the age of the units, the type of construction, or the duration of the occupation? How does the mix of single-family and rental properties affect a community's quality of life?

Fortunately, there is rigorous research underway to address these and similar questions, just as there are important efforts to preserve and sustain affordable housing being undertaken in communities across the country.

Over the last five years, the Foundation has launched new initiatives to help preserve existing affordable rental housing nationwide, transform public housing in Chicago, and promote evidence-based housing policy. These include a \$50 million preservation initiative called Window of Opportunity, a \$50 million commitment to assist with the conversion of Chicago's worst public housing high-rises into mixed-income communities, and almost \$15 million to explore ways to promote the affordability of housing, as well as investigate the connections between housing and healthy individual and community development.

By funding the best researchers and practitioners, the Foundation hopes to document the relationship between

housing, especially rental housing, and individual and family welfare over the life span; understand the contribution rental and mixed-income housing makes to urban and regional economic competitiveness; and support inventive but practical solutions to the challenges of providing affordable housing at a meaningful scale.

This newsletter tells the story of a growing appreciation for the importance of housing through the voices of people and organizations MacArthur is proud to support. We hope it opens a conversation with you about how housing matters and that you will write us with your reactions.

Jonathan F. Fanton
President

About this newsletter

Each issue of the MacArthur newsletter will highlight one area of the Foundation's grantmaking. Areas selected will reflect the Foundation's overall approach to identifying and carrying out activities to address specific problems. More information about the Foundation and its grantmaking can be found online at www.macfound.org.

In its grantmaking, the John D. and Catherine T. MacArthur Foundation develops and follows a set of strategic, non-partisan priorities related to a selected problem, holding itself accountable for results, over time. This requires defining problems and approaches, and continuously refining strategies as conditions and opportunities change. The Foundation reaches out to individuals and organizations

it perceives to be the most promising and effective, and provides support over a sufficiently long period of time.

About the Foundation

The MacArthur Foundation is a private, independent philanthropic institution that makes grants through four programs. The Program on Global Security and Sustainability supports organizations engaged in international issues, including peace and security, conservation and sustainable development, population and reproductive health, and human rights. To aid in this grantmaking, the Foundation maintains offices in Mexico, Nigeria, Russia, and India. The Program on Human and Community Development supports organizations working primarily on national issues, including community

development, regional policy, housing, public education, juvenile justice, and mental health policy. The General Program supports public interest media and the production of independent documentary films. The MacArthur Fellows Program awards five-year, unrestricted fellowships to individuals across all ages and fields who show exceptional merit and the promise of continued creative work. With assets of about \$4.5 billion, the Foundation makes grants totaling approximately \$180 million each year.

Program on Human and Community Development

At the direction of Julia Stasch, Susan Lloyd, Erika Poethig, Debra Schwartz, and Spruiell White work on housing research, policy, and practical initiatives.

Reclaiming rental: Preservation delivers on its promise



Photographer: Mark Ballogg ©Steinkamp/Ballogg Photography

Above: With tenants in place, Archer Courts received an award-winning facelift, a new health clinic, and other improvements from its new owner, Chicago Community Development Corporation. The 1950s building in Chicago's Chinatown neighborhood was revitalized in 2000 for half the cost of new construction. A renewed federal subsidy contract will keep rents affordable for low-income seniors and families.

Cover: A mix of housing that is affordable to a range of income levels contributes to the competitiveness of cities and regions.

Just as Social Security Administration and Medicare officials nervously anticipate the aging of the Baby Boomers, housing analysts have been eyeing the nation's aging affordable rental stock with growing concern since the 1990s.

From 1970 to the mid-1980s, nearly 10 million affordable rental apartments were built in the United States. Congress had recognized that housing options were limited for America's growing population, and created financial incentives during the 1960s and 1970s for builders and owners to develop affordable multifamily properties and keep rents low for at least 15 years. This changed in 1986 when federal tax policies were enacted that scaled back incentives. The building boom of the previous 20 years slowed dramatically.

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Left: Preservation makes good sense. Reinvesting in existing properties costs up to 50 percent less than new construction.

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Today, the properties produced 15 to 30 years ago have aged, and many are in need of repair. At the same time, the subsidies associated with them are ending. According to a report released by Harvard University's Joint Center for Housing Studies in the mid-1990s, tens of thousands of affordable units were at risk of being lost from the nation's supply of affordable housing as the last of these incentives began to expire in the late 1990s.

"We realized there was no way we could build units fast enough to replace those that were about to go out of the inventory," says Sister Lillian Murphy, president and chief executive officer of Mercy Housing. Based in Denver, Mercy is one of 15 major nonprofit housing developers supported by MacArthur as part of its Window of Opportunity initiative — a five-year, \$50 million effort to maintain and strengthen the supply of affordable housing in the U.S. "The Harvard researchers and the housing advocates who publicized their findings convinced us we had to ratchet up

our efforts." So, instead of building or buying individual multi-unit properties, as it had previously, Mercy started to put together innovative financing packages to purchase and fix up large, multi-property real estate portfolios, such as the 926-unit Cobble Knoll development in rural Washington State (see sidebar below). Today, Mercy has developed more than 15,000 affordable units that house nearly 45,000 people in 18 states.

Mercy's efforts, an anomaly as recently as a few years ago, are now part of a larger trend: State and local housing agencies, major lenders, nonprofit developers, and others who had previously concentrated on new construction to meet the housing needs of low-income families are embracing preservation and improvement of existing affordable rental stock as a central component of their overall strategies. More than just a pragmatic approach to real estate, reinvesting in existing properties — both those that receive government subsidies and the vast majority that do not — helps reverse blight in economically strapped neighborhoods

and allows families that would otherwise have to move to stay in their neighborhoods. "Preservation has become today's most pressing housing policy challenge and its greatest opportunity," says Shaun Donovan, commissioner of New York City's Department of Housing Preservation and Development. "It's receiving a level of national attention it's never gotten before."

In 2003, MacArthur launched its Window of Opportunity initiative, announcing the first \$30 million of \$50 million in grants and low-cost loans to large-scale nonprofit housing developers and financial intermediaries to preserve 100,000 units of affordable housing. These investments are intended to help demonstrate the value of preservation *and* lead to policies that make it easier for a new generation of owners to achieve a larger goal — the preservation of at least one million affordable units in the decade ahead.

A window of opportunity for preservation

That the United States suffers from a shortage of affordable rental housing is an accepted fact. The number of renter households has grown to more than 35 million — one-third of all U.S. households — and is projected to rise by another two million in the next ten years. Nineteen million renter households live

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Preserving affordable rental housing: Three case studies

Window of Opportunity



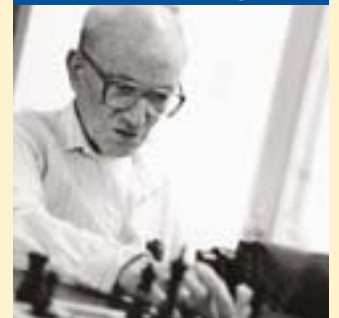
Two-thirds of all the rental units nationwide are more than 30 years old, and more affordable units are being lost each year than are being built. To help stem the tide, the MacArthur Foundation is investing \$50 million as part of its Window of Opportunity initiative to help major nonprofits purchase and maintain 100,000 units of existing rental housing that might otherwise deteriorate beyond repair or become too expensive for low- and moderate-income households. Preservation success

stories take many forms across the country, as the following examples illustrate.

Leveraging taxpayer dollars

Since 1949, Congress has asked the United States Department of Agriculture to help meet the housing needs of farm laborers, elderly retirees, and other rural Americans — many of whom live below the poverty line. Increasingly, the federal agency is turning to partnerships with organizations like Mercy Housing, Inc., one of the

Cobble Knoll: rural Washington State



Mercy Housing keeps hundreds of units affordable for senior citizens on fixed incomes.

Preservation projects often include playgrounds and other amenities for low-income tenants.



nation's largest affordable housing developers, to fulfill that mission. With USDA assistance, Denver-based Mercy Housing recently acquired aging and widely dispersed units in rural Washington State known as the Cobble Knoll portfolio, which is made up of 926 units in 30 properties.

Once the project is completed, the average rent for an apartment in Cobble Knoll will be \$275 a month, more than \$150 below the fair market price for a one-bedroom apartment in rural Washington

state. All Mercy Housing properties provide resident-based programs such as after-school education, health programs for seniors and individuals with special needs, and GED courses.

"We depend on nonprofits that are dedicated to keeping existing housing affordable, especially in geographic areas largely abandoned by the private sector," says Art Garcia, administrator for the USDA's Rural Housing Service. "We serve people who might otherwise end up on the street or in

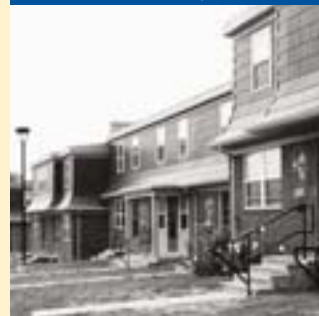
nursing homes, and we always look for a way to make good things happen."

A new lease on life

Built between 1969 and 1975, Hawthorne Place Apartments once provided good-quality affordable housing to hundreds of low-income families in Independence, Missouri. After 20 years of gradual decline, however, the complex became overrun by gangs. Local police responded to an average of five calls a day.

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Hawthorne Place: Independence, MO



Preservation revitalized a community the private market had dismissed as unprofitable.



Left: A low-cost rental property in rural Virginia, before and after being preserved and improved by Community Housing Partners Corporation. The new nonprofit owner transformed the community while maintaining affordable rental housing for its residents.

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 on annual incomes of \$30,000 a year or less. Most of these households qualify for government housing assistance, but only five million actually receive it. Twelve million households now spend more than 35 percent of their income on rent — well above the level considered affordable.

Much of the problem with affordability is caused by strong markets. Property owners in hot real estate markets raise rents sharply or convert modest rental buildings into for-sale condominiums, lofts, and townhouses.

What has been less widely understood is the precarious status of the nation's stock of low-cost rental housing. Nearly two-thirds of all the rental units in the country are more than 25 years old and in need of periodic reinvestment to remain habitable. Landlords who charge low rents, however, often do not generate enough income to pay for renovations and repairs. Aging units in weaker markets are especially vulnerable to deterioration, condemnation, or abandonment.

Units that are affordable because of government subsidies — about 20 percent

of all the low-rent apartments nationwide — are at additional risk of becoming unavailable to the households for which they were intended. Developers who use government incentives to develop rental properties are generally required to keep the housing affordable for a limited period of time, typically 15 to 30 years. Since 1997, nearly 300,000 government-subsidized units have been lost as owners opted out of expired government contracts or refinanced government-supported mortgages, cutting the number of the nation's most affordable rentals by 10 percent.

"Billions of public dollars have been invested in these assets. They often serve as the only housing source available," says Michael Bodaken, president of the National Housing Trust, whose work centers on preserving and improving affordable multifamily homes for low- and moderate-income households. Bodaken also heads NHT/Enterprise Preservation Corporation, a partnership between the Trust and the Enterprise Foundation, created to purchase and preserve affordable

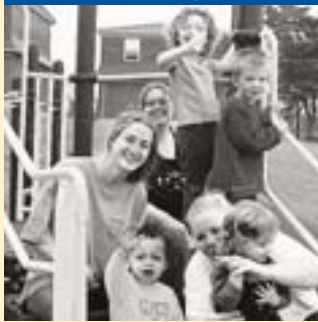
housing nationwide. "Allowing them to be lost would be a truly unfortunate waste of taxpayers' money," he says.

Bringing down the barriers to preservation

Today there are limited federal housing dollars earmarked for the preservation of affordable rental housing and a number of barriers that serve to discourage it. In strong real estate markets, buyers who want to purchase and keep rental properties affordable typically must raise additional funds to compete with those who convert properties to market rate. In weak real estate markets, owners frequently lack the means or economic incentive to properly maintain aging rental properties. Moreover, federal law discourages many of these owners from selling to mission-driven buyers that might be willing and able to take over. Sellers often owe a sizeable "exit tax" to the federal government, even if a sale produces little or no cash gain. As a result, many owners decide to retain their properties and let them deteriorate. Such market and tax impediments make it hard or prohibitively costly for a new generation of housing owners to acquire and improve the nation's existing supply of affordable rental properties.

Barriers to preservation have started to come down. Substantial amounts of private capital are now being made available for preservation projects. In addition

Hawthorne Place: Independence, MO



This 745-unit development gained a new playground and a 21,000-square-foot community center.

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Thanks in part to a new state tax credit that offsets the seller's "exit tax," Hawthorne Place was purchased in 2002 by Preservation of Affordable Housing, Inc. (POAH), a new national nonprofit committed to keeping rents low for good. POAH persuaded HUD to forgive some old debt on Hawthorne — a landmark transaction. It then put an average of \$19,600 into each unit for new kitchens, furnaces, and air conditioners, energy-efficient windows and doors, flooring, insulation, and

electrical upgrades—including hard-wired smoke detectors. The new owners also built a community center that now houses a Boys and Girls Club, two Head Start classrooms, a community policing office, computer rooms, and a gymnasium.

POAH's mission-driven investments dramatically improved living conditions for Hawthorne's 2,000 residents, nearly half of whom earn less than \$10,000 a year. "This used to be a place where people kept to themselves and were

afraid to let their kids play outside," says Lisa Diaz, a tenant for six years. Now she and her two sons take advantage of the numerous family activities offered through the new community center. Says Diaz, "Hawthorne has become a great place to raise kids."

A win-win for Orlando's businesses and residents

Located seven miles from Disney World, the Woodside Apartments are home to many of the immigrants and other low-wage workers who keep

to MacArthur's Window of Opportunity initiative, Fannie Mae recently announced it will invest \$15 billion to preserve more than 300,000 affordable rental units; it will also lend up to \$100 million to enable larger nonprofit housing owners to purchase and improve affordable rental properties.

At the same time that private capital has started to flow, the number of states that are making preservation a priority went from fewer than six in 2002 to more than 40 in 2004, according to the National Housing Trust's annual survey of state housing agencies. "Well over 35,000 affordable apartments were saved using federal Low Income Housing Tax Credits and other housing resources in 2003," says Bodaken. "We're actually turning the tide because financing agencies have stepped up their commitment."

One example of the public sector's commitment is the partnership that New York City recently entered into with the U.S. Department of Housing and Urban Development (HUD) and local nonprofit housing developers. The city is providing tax abatements and development expertise to enable organizations to purchase hundreds of small buildings that had deteriorated; HUD is paying to rehabilitate the buildings. To help ensure that the new owners have enough income to maintain the properties, the city also is contributing part of its allocation of Section 8 vouchers — federal

certificates that make up the difference between market-rate rents and what low-income renters can afford — for use by tenants. "Combining federal resources with local knowledge and capacity is a promising model that we plan to use on future projects," says Donovan.

Government policies are changing not only as a matter of practice but as a matter of law. In July 2004, Illinois Governor Rod Blagojevich signed legislation expanding the number of situations in which owners must give tenants notice of their intent to opt out of affordability agreements — and giving tenants the opportunity to partner with new owners to purchase the buildings at a fair market value. Also in 2004, a federal bill to provide exit tax relief in the case of a sale for preservation was introduced in the House of Representatives.

A growing track record of success

Nearly a decade after researchers at Harvard's Joint Center for Housing Studies issued their report on the state of the country's affordable housing stock, preservation activity is accelerating. Michael Bodaken attributes the momentum to several factors. "First, preservation is cost efficient, a critical factor in the allocation of scarce public resources," he says. (The Trust's analysis found that preservation is at least 33 percent — and sometimes as much as 50 percent —

less expensive than new construction.) "Second, preservation is more predictable than new construction: The developer knows who lives there and what the market is," he adds. But perhaps most important is the fact that preservation is no longer uncharted territory for state agencies. "It's a lot easier for state decision makers to buy into something when they see their peers in other states doing it," Bodaken observes.

For their part, lenders are increasingly interested in preservation projects because there is money to be made on them. "Preservation creates a real business opportunity for lenders," says Donovan, who oversaw affordable housing investment and FHA lending as managing director at Prudential Mortgage Capital Company before taking his current position with the City of New York.

Preservation does more than make good economic sense, it also helps build healthy communities. Committed landlords and owners not only keep rents affordable for the long term but often make significant improvements that bring about good things for both residents and neighborhoods. When NHT/Enterprise purchased the 96-unit 51st and King Drive Apartments on Chicago's South Side, for example, it added a new computer center to help tenants develop job skills. And the renovation of Hawthorne Place *(continued on back page)*

Woodside Apartments: Kissimmee, FL



Preservation of the Woodside Apartments included renovation of a swimming pool and other amenities for residents.

Orlando's service industry running. An unsubsidized property, the building was nearly sold to a corporate buyer that planned to raise rents significantly. It was instead purchased by a national nonprofit organization that keeps rental housing affordable. NHT/Enterprise Preservation Corporation purchased and renovated the entire complex and added after-school programs and other services without raising rents.

NHT/Enterprise was created to meet the housing needs

of working families in inner-ring suburbs, areas that tend to have strong markets and typically do not need the services of mission-driven organizations to keep housing from falling into disrepair. In Kissimmee, NHT/Enterprise's investment helped lower-income working families stay in housing that kept them close to their jobs and allowed their children to continue their education in local schools.

"Keeping Woodside affordable is good for the local

economy and it's good for us. The residents and their employers are our customers," says George Owen, a senior vice president at Bank of America, which provided financing that allowed NHT/Enterprise to purchase the property. Bank of America is one of a growing number of financial institutions helping nonprofit developers purchase large rental properties for preservation. "Partnering with experts like NHT/Enterprise, we can do project after project," says Owen.

Revitalizing Bronzeville:

Mixed-income housing is key to community strength

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To see the impact of mixed-income housing on the fortunes of a community, consider Bronzeville — a historically vibrant area on the South Side of Chicago that had fallen into deep distress. Today, the neighborhood is being revitalized as a result of the city’s plan to replace public housing high-rises with housing that will attract homeowners and renters of various means.

From the 1940s to the 1960s, Bronzeville was in its heyday. Thousands of African Americans, many of them former sharecroppers, migrated to Chicago and settled in this neighborhood located just a few blocks from where trains dropped them off. Home to everyone from stockyard and steel mill workers to entrepreneurs, musicians, journalists, and many others — including bandleader Louis Armstrong, pilot Bessie Coleman,

banker Jessie Binga, and civil rights leader Ida B. Wells — Bronzeville was a “mixed-income community” well before the term was coined.

“Of course Bronzeville was a mixed-income community, because all African Americans were hemmed into the same space,” says Mary Pattillo, an associate professor of sociology and African American studies at Northwestern University. For residents of different income levels — mostly working people and a small professional class — living in close quarters meant that Bronzeville had all the elements of a small city. Pattillo adds, “There were banks, insurance companies, newspapers, churches, flourishing small businesses, women’s clubs and charities, and a famously vibrant cultural and social life — as well as enough disposable income to support these institutions.” But overcrowding took a toll on housing, health,



says. “Ida B. Wells was cheered as a clean and safe place to live. There’s a fair amount of nostalgia about those days, and there’s no doubt that for some people it felt like paradise.”

In its early years, Ida B. Wells continued to be a vibrant low-income community, housing mostly working families. Then, Pattillo says, several major changes occurred. New federal policy required public housing to give priority to the neediest families, pushing some working families out. In addition, a new rent formula greatly increased the cost of public housing for working families. At the same time, the Fair Housing Act and the growth of the suburbs made housing in other areas available and affordable. As a result, over the course of only a few years, Bronzeville and the mostly white neighborhoods to the south of it experienced massive out-migration. “All that pent-up housing demand after World War II — people wanted their own home with a yard,” Pattillo says. “Whites were drawn out of the city to the suburbs, and African Americans moved outward into the bungalow belts of the South and West sides of the city. Bronzeville thinned out, and the black South Side expanded over a much wider area.”

As working families moved out, Ida B. Wells, like public housing projects across the country, became last-resort housing for desperately poor people, and residents became isolated and cut off from jobs and community resources. By the 1980s, public housing nationwide “had become a dumping ground for very, very poor families, including the homeless,” says Bruce Katz, vice president and director of the Metropolitan Policy Program at the Brookings Institution. “In most developments, almost all the residents were in dire circumstances, and the projects (continued on next page)



In the 1940s, Bronzeville had all the hallmarks of a small city, including businesses, banks, churches, and a lively cultural and social life.

Left: A 15-foot-tall statue, “Monument to the Great Northern Migration,” greets visitors to Bronzeville, a Chicago community where public housing transformation is accelerating revitalization.

and life, as families tripled up and graystones and frame houses that once housed single families were carved up into multiple “kitchenettes.” Alan Ehrenhalt’s *The Lost City* describes the low end of the mixed-income housing in Bronzeville in the 1950s: “At the Martinette Apartments at 23rd and Indiana, a thousand people, nearly two hundred of them children, lived in a single seven-story building. For \$7.80 a week, tenants got a room, a bed, part of a dresser, a stool, a radio, and a chair.”

In 1941, the Ida B. Wells Homes were built in Bronzeville as part of President Roosevelt’s Public Works Administration. One of the nation’s first public housing developments, the low-rise complex incorporated a city park, playgrounds, and athletic fields. “By that time, there was extreme desire for decent housing,” Pattillo

Right: The original Ida B. Wells Homes “seemed like paradise,” but they eventually became a last resort for the poor.



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had become the hub of many negative activities in their neighborhoods, including crime, drugs, and violence. Policymakers were beginning to see that these activities no longer served families well — and were actually harming the people who lived in them and acting as a drag on their neighborhoods and the cities around them.” Ida B. Wells and properties like it became so unattractive that it became difficult for housing authorities to keep the buildings occupied.

HOPE VI revitalizes public housing

In 1992, Congress created the \$5 billion HOPE VI program to address the problem of severely distressed public housing. Although it began as a demolition program, HOPE VI evolved to address the social and economic needs of residents and the vitality of the surrounding neighborhoods. “Initially, energy was placed on crossing the Rubicon and tearing down the worst projects, and less emphasis was placed on solutions such as economic integration,” Katz says. “But research at the time was showing the negative consequences of highly concentrated poverty, especially its effect on school performance. Henry Cisneros, who was Secretary of the U.S. Department of Housing and Urban Development and had been a big-city mayor, knew from personal experience the negatives of concentrated poverty.”

Since the program’s inception, HUD has awarded 446 HOPE VI grants, leveraged with state and local dollars, in 166 cities across the nation. These grants have made it possible to demolish more than 63,000 units of mostly uninhabitable public housing units and replace many of them with new housing, much in mixed-income developments. “HOPE VI changed the

way of doing business within the housing community,” says Katz. “It’s not just about providing shelter anymore. Yes, 166 new developments are being built, and each one can show signs of good effect — but that alone would not be enough to change communities. When you start thinking about economic integration and where kids go to school and how people get connected to jobs, it sets off a reform movement. Now we’re really talking about transformation.”

Research has just begun to look at the program’s impact on residents and neighborhoods. In 1994, HUD carried out a baseline assessment of HOPE VI and followed it up with another overview of the program in 2003, but neither of these studies gathered much information about the original residents nor had a plan to track the impact of the program on their lives.

In 2003, the Urban Institute launched an evaluation of the program as a first step toward answering questions about what the investments in HOPE VI had accomplished. In a May 2004 report titled “A Decade of

HOPE VI: Research Findings and Policy Challenges,” Urban Institute researchers reported that, despite relocation problems associated with the program, HOPE VI benefits children and families living in public housing and improves the conditions in the neighborhoods where its resources have been put to work — resulting in lower crime rates, stronger schools, new community centers, and revitalized parks and other community facilities. According to the report, “For the first time, the federal government has implemented a mixed-income model at a meaningful scale — combining deeply subsidized rental housing with other affordable units and even market-rate housing. There have been some notable successes, such as Atlanta’s Centennial Place, Charlotte’s First Ward, Tucson’s Greater Santa Rosa, and Louisville’s Park DuValle developments.”

Centennial Place is a good case in point. This 737-unit mixed-income development, combined with a new school, has created significant opportunities for the people living in this community. Centennial School is the second-highest-performing school in the Atlanta school system, despite the fact that its students continue to be low-income. Ninety-seven percent of Centennial’s fourth grade class met or exceeded the state standard for reading in 2003, compared to the citywide average of 75 percent. And the development has been a trigger for improvements to nearby areas. One Brookings study indicates that property values in the surrounding areas have increased since the HOPE VI property has been occupied.



At their inception, Bronzeville’s public housing developments were mixed-income communities for working families.

Right: Bronzeville is famous for its contributions to the music and artistic scene in Chicago and nationwide.



The Urban Institute also is tracking the living conditions and well-being of the original residents of five public housing developments where revitalization activities began in mid-to-late 2001. Included in the study are three South Side projects in Chicago as well as others in Atlantic City, New Jersey; Richmond, California; Washington, D.C.; and Durham, North Carolina. Among the results: Residents who moved out of developments where revitalization efforts have begun generally moved to homes with fewer problems and to neighborhoods with lower levels of poverty, slightly more racial diversity, and significantly less crime.

Chicago as a model

Among cities using HOPE VI funds, Chicago has one of the largest number of public housing units and residents. As such, it has the potential to demonstrate, at scale, the impact of mixed-income housing on neighborhood revitalization. Recognizing this, the MacArthur Foundation began a special \$50 million initiative in 1999 to assist with the transformation. The city

is approaching the mid-point in its \$1.6 billion Plan for Transformation, having demolished 8,700 units of obsolete housing and built or rehabbed more than 13,000 of the promised 25,000 units of public housing. On the sites of obsolete high-rise projects, experienced real-estate developers are building high-quality homes — a mix of subsidized, affordable, and market-rate apartments, condos, and single-family residences that are proving to be good places to live and assets in their communities.

“This is a historic opportunity to rebuild lives and neighborhoods,” says Terry Peterson, chief executive officer of the Chicago Housing Authority. “At the conclusion of our 10-year plan, we will have redefined the character of public housing in Chicago, reversing decades of decline and hopelessness and leaving a legacy of promise and opportunity for many of the city’s low-income residents.”

As part of the Plan for Transformation, construction has begun on the 25-acre Madden-Wells-Darrow site — the same site

in Bronzeville where the Ida B. Wells homes were constructed in 1941. The master plan for the site calls for 1,000 units of public housing, 680 units of affordable housing, and 1,320 units of market-rate housing. Unlike its isolated predecessors, the new development recreates the traditional Chicago street and alley pattern and incorporates landscaped boulevards, public parks, and pedestrian walks. The area’s proximity to downtown Chicago, its close access to Lake Michigan, and the construction of new market-rate developments just to the north and south are
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Creative financing central to new mixed-income community

When the City of Chicago pledged \$3.6 million in future property taxes to defray the costs for Jazz on the Boulevard, public officials believed all the pieces were in place to build this new mixed-income community on Chicago’s South Side. But the promised property taxes would not materialize until homes were built and sold — too late to help cover construction budget shortfalls.

The development team of Thrush/Granite/Heartland Housing sought to raise the cash needed to get work underway by borrowing

against the pledged property tax revenues. But traditional lenders turned them down. “It was too risky,” explains Joseph Williams, president of Granite Development Corp. “The market for a mixed-income development, including for-sale homes at market rate, in that part of the city is still unproven.”

A new \$15 million financing program backed by the MacArthur Foundation helped reduce lenders’ uncertainty about the prospects for Jazz on the Boulevard and other new mixed-income communities that are the centerpiece

of efforts to transform public housing in Chicago. In a landmark transaction closed in August 2004, the Foundation provided a guaranty for a loan made by Fannie Mae and other investors to the City of Chicago. By October, the proceeds made it possible to start construction on 96 homes that will sell for \$130,000 to \$508,000.

MacArthur’s guaranty is expected to help jumpstart development of three more mixed-income communities in Chicago by the end of 2005. If sales of the new market-rate homes go as projected, property tax revenues will retire

the loans. Should any delays or shortfalls in these tax revenues occur, the Foundation’s guaranty can be tapped to repay some or all of the outstanding debt.

“Because MacArthur and its lending partners were willing to take some added, one-time risk, our project is moving ahead,” says Williams. “Creating a chance for mixed-income communities to build a track record for success will make it much easier in the future for similar developments to obtain financing without any special support.”

For children and families, housing matters. But how?

How important is housing to healthy human and community development? Ask Maricela Contreras. She remembers how it was for her growing up in Chicago, moving from apartment to apartment, not doing the things little girls ought to do. She lost contact with friends as she left her old neighborhoods. She rarely had a quiet place to concentrate on homework. And because she changed schools so often, she repeated the third grade.

So now, as a 30-year-old mother of her own little girl, Maricela drives her first-grader — Nayeli — seven miles across town to the school where Nayeli began her education and has formed solid friendships. It's a good elementary school on Chicago's Northwest side, in a neighborhood Maricela and her family

recently left because they could no longer afford their rent.

"It's a long drive, but I want things to be better for my child," says Maricela. "My parents moved so much when I was in school, and that wasn't good for me."

Maricela knows from experience what public officials and policymakers are just beginning to fully appreciate: Housing matters. It matters in ways both subtle and profound, ways that go far beyond having a warm place to sleep.

Social science has produced volumes of data-filled analyses on the impact of welfare reform, early childhood learning, and other safety-net programs. Far less is known about the impact of decent and affordable housing on the well-being of families. People have suspicions, of course. But, in an empirical sense, little is understood about the role that stable housing

plays in the evolution of children into successful adults. How does housing affect a child's health, cognitive ability, and academic achievement? And down the line, how does it influence a young adult's ability to obtain and hold a decent job, or find a suitable spouse, or form a stable and upwardly mobile family of their own?

The truth is that little is known. Or at least not as much as should be, given the dramatic changes now reshaping government housing programs, such as the breakup of concentrated public housing in favor of a strategy that relies in part on portable rent subsidies. Or the influence of powerful market forces, such as the high cost of land and housing production and tax policies that encourage homeownership at the expense of rental.

The MacArthur Foundation is funding research that explores the connections





between housing and the well-being of families and, similarly, the relationship between housing and the well-being of entire neighborhoods.

One line of inquiry is being pursued by Sandra Newman, director of the Institute for Policy Studies at Johns Hopkins University. Hers is among the first systematic examinations of the effects of affordable housing on children's physical health, cognitive ability, academic achievement, and, later in life, success in the labor market.

"We know a lot about the [housing] development process, the comparative costs, the engineering, architectural, and legal issues," says Newman. "But we're just beginning to understand how housing influences human and community

development. Social scientists have lacked solid evidence."

To complicate matters, some new evidence runs counter to conventional expectations. Newman and research partner Joseph Harkness looked at the long-term impact of growing up in public housing in a 2002 study funded by the U.S. Department of Housing and Urban Development (HUD) and the Ford and Rockefeller Foundations. Using data from a longitudinal study maintained by the Survey Research Center at the University of Michigan, Newman and Harkness compared the fortunes of children who grew up in public housing between 1968 and 1982 to those of children who grew up in similar economic circumstances but did not receive housing assistance.

"Public housing enhanced children's long-term outcomes," was the study's unexpected conclusion. The children of public housing were, as young adults, less likely to depend on welfare and more likely to hold jobs. Indeed, young people who lived in public housing earned \$1,860 more per year on average than their counterparts who grew up in private housing.

It sounds counterintuitive, given the grim reputation of public housing. But Newman suggests the data paint an even bleaker picture of life at the low end of the private rental market. Compared to public-housing tenants, she says, families without housing subsidies have little or no protection against overcrowding, deferred maintenance, lease terminations, and, importantly, excessive rents.

Says Newman of her current work: "We know that having a stable, affordable residence influences school attainment. Finding out how, and how much, will be a matter of unpacking the various factors in an orderly fashion."

Families are one level of inquiry. But how does the supply of affordable housing affect an entire neighborhood?

With MacArthur Foundation support, Stuart Rosenthal, professor of economics at Syracuse University, is exploring "the effects of subsidized housing on the economic status of urban neighborhoods." He is investigating the interaction between the supply of subsidized and unsubsidized affordable rental housing and the dynamics of the neighborhoods where it is located. For this, he developed a powerful econometric model that uses census data from 1910 to the present in 300 of the nation's
(continued on next page)

Left: "We know that having a stable, affordable residence affects school attainment," says a housing researcher.



Not enough is known about the role that stable housing — or the lack thereof — plays in the evolution of children into successful adults.

(continued from previous page)

largest metropolitan areas to better understand the complex relationship among income, housing, and quality of life in neighborhoods.

In an initial report issued last October, titled “Old Homes and Poor Neighborhoods: A Dynamic Model of Urban Decline and Renewal,” Rosenthal examines more than a dozen neighborhood indicators — from median income to educational attainment — across the second half of the 20th century. One core finding: Virtually all neighborhoods go through a cycle of renewal and decline that takes roughly 90 years and appears to be driven largely by the age of the housing.

Housing plays a role throughout the process of neighborhood change, Rosenthal found. Middle-aged housing is a predictor of decline “presumably

because it is neither new enough to attract higher-income families, nor old enough to be ripe for demolition” in advance of new construction. This same middle-aged housing, however, continually “filters down” to less-affluent families and is the nation’s primary source of affordable housing. The presence of public housing, Rosenthal found, is correlated to decline, whereas rising rates of homeownership foretell neighborhood recovery.

Rosenthal is quick to admit that there are exceptions to these trends: Here and there affluent families gravitate to gaslight districts with landmark-quality older homes; not all public housing has had a negative impact; and “not everyone can or should own a home.” Still, he predicts much will be learned as other forms of federal subsidies, such as Housing Choice Vouchers and Low-Income Housing Tax

Right: Although hundreds of analysts have examined the impact of welfare and other safety-net programs on children’s lives, the role of housing is still

an open question. New research shows that housing may be an important platform for successful human and community development.

Credits, are correlated to the trajectories of neighborhood advance and decline.

The housing research funded by MacArthur is designed to inform policymakers in Washington as well as hands-on practitioners about the importance of housing to human and community development.

“Any objective policymaker or taxpayer wants to see the evidence before the dollars are invested,” says Johns Hopkins’ Newman about the debate in D.C.

Practitioners need answers, too, including those involved in MacArthur-funded efforts to revitalize neighborhoods, transform public housing, and preserve rental affordability. “These questions are central to understanding the forces that shape cities,” says Rosenthal of Syracuse. “Can cities forestall decay and accelerate renewal? And if so, how?” ■

Selected housing-related research supported by MacArthur

Center for Housing Policy, National Housing Conference

Research on the housing needs of working families, including immigrant households, and on the effects of housing mobility and cost on the social, educational, and health outcomes of children.

www.nhc.org

City Research

Research on the dynamics of the U.S. rental housing stock.

www.cityresearch.com

Columbia University, Department of Sociology

Research that follows 400 families who have moved from a single public-housing development in Chicago, to learn how family members manage multiple transitions and how their social networks affect their experiences.

www.sociology.columbia.edu

Harvard University, Joint Center for Housing Studies

Research on the affordability and availability of housing and

the ways in which rental housing affects the social, physical, and economic conditions of residents and the communities in which it is situated.

www.gsd.harvard.edu/jcenter

Johns Hopkins University, Institute for Policy Studies

Research on the effects of affordable housing on children’s well-being, including health, cognitive ability, and academic achievement.

www.jhu.edu/~ips

National Low Income Housing Coalition

Research that estimates how many hours a person earning the minimum wage has to work to afford a two-bedroom apartment in U.S. cities.

www.nlihc.org

National Housing Trust

Research on state- and local-level initiatives that preserve affordable multifamily housing and on the changes in the inventory of federally subsidized multifamily units.

www.nhtinc.org

New Jersey Housing Mortgage Finance Agency

Research examining the existing stock of affordable rental housing in New Jersey, and assessing neighborhood ownership and financing characteristics that create significant risk of loss.

www.state.nj.us/dca/hmfa

New School University, Milano Graduate School, Community Development Research Center

Research on strategies to preserve expiring Low Income Tax Credit projects in New York City and nationally.

www.newschool.edu/milano/cdrc

New York University, Furman Center for Real Estate and Urban Policy

Research on federally assisted rental housing in New York City, including the types and number of housing units at risk of loss in specific neighborhoods and implications for

local, state, and federal policy. Also, research on the effect of privately owned, subsidized rental housing on neighborhood property values.

www.law.nyu.edu/realestatecenter

Northwestern University, Institute for Policy Research

Research documenting the experiences of Chicago’s public-housing families who are using vouchers to move to eight city and suburban communities.

www.northwestern.edu/ipr

Northwestern University and the University of Pennsylvania

Research on the Gautreaux Two Housing Mobility Program to better understand the process of housing search, relocation, and voucher use for families as a result of the Chicago’s Plan for Transformation of public housing.

www.northwestern.edu/ipr



Vice President's Message

Connecting housing, schools, and community

The Foundation has long recognized the importance of housing and community conditions to the well-being of individuals and families. Since its inception, MacArthur has provided more than \$230 million in support of housing and neighborhood revitalization activities in 31 states.

More recently, we have been exploring a framework for integrating our thinking about the importance of context for human development; the challenges of reforming the institutions and systems that affect people's lives; and the connections among communities, cities, and regions. This framework focuses on three determining factors in the lives of individuals and families — housing, schools, and community. It seeks to better understand the interactions among them, and how efforts in one domain, such as housing, are likely to produce positive changes in other domains as well.

Why housing, schools, and community?

As this newsletter suggests, recent research indicates that stable and affordable housing may be central to reducing poverty, in that it provides a firm foundation from which families can more easily find and keep jobs, attend to the health and education of their children, and move toward self-sufficiency. Public education has been and continues to be the single most important influence on access to economic and social opportunity, which in turn is linked to lifelong health and security. And community, as we know, is more than the physical place where people live and economic development occurs. It is also a set of institutional supports and systems and webs of relationships that must function effectively to encourage individual growth, provide economic opportunity, and promote participation in civic life.

This newsletter introduces you to one aspect of our thinking about human and community development. Future issues will explore other elements of our emerging framework.

Julia M. Stasch
Vice President
Program on Human and
Community Development

Recapitalization Advisors

Research on the stock of subsidized and conventionally financed affordable rental housing in Cook County, IL, and the risk of loss based on subsidy, financing, ownership, and market characteristics.
www.recapadvisors.com

Syracuse University, Center for Policy Research

Research on the influence of subsidized rental housing programs on the economic status and trajectory of urban neighborhoods.
www-cpr.maxwell.syr.edu

University of Chicago, National Opinion Research Center

Research on the experience and effects of relocation on public-housing residents who move because of building closures as a result of Chicago's Plan for Transformation of public housing.
www.norc.uchicago.edu

Urban Institute

Research on HOPE VI to examine the program's impact on residents and neighborhoods. Also, research on the location and types of neighborhoods that are accessible to housing choice voucher recipients.
www.urban.org

Vasys Consulting, Ltd.

Research on the organizational issues and key factors shaping the ability of nonprofit affordable-housing owners to grow and operate successfully at a significant scale.
www.vasysconsulting.com

Woodstock Institute

Research on issues affecting the maintenance and production of affordable rental housing, including the role of small-scale property owners and the impact of federal tax policy.
www.woodstockinst.org

Reclaiming rental/continued

in Independence, Missouri (see sidebar), has helped stem the tide of decline in its surrounding neighborhood.

Growing interest in preservation is good news — both for those renters who live in government-subsidized units as well as the far greater number of low-wage families that live in units that are not subsidized. “It’s exciting to see everything that’s happening, though of course there’s always a need for more safe, decent, affordable rental housing,” says Mercy Housing’s Sister Lillian Murphy. “Kids can’t learn if they’re dodging bullets near home; parents can’t get a job if they don’t have a phone number where they can be called. The longer I work, the more I believe we’re never going to solve other social problems if we don’t get people housed properly.” ■

Revitalizing Bronzeville/continued

creating great potential for revitalization. The city has made a commitment to improving the local schools, without which the success of the new mixed-income communities would be at great risk.

“Bronzeville is an area with a fascinating history,” says Patrick Clancy, president of Community Builders, which has worked on 15 HOPEVI sites around the country and is developing Oakwood Shores at the former Madden-Wells-Darrow site. “But over the years, with the housing having deteriorated so badly, and with all the social challenges that come with that, the neighborhood had long ago lost its ability to attract working families. To make a strong community, it has to be marketable to people who have choices about where to live. A key emphasis of our work is not only

creating attractive housing that works for families. We also want to be a catalyst for changes in education, for stimulating economic activity in the neighborhood, and for other services that attract market-rate buyers and that support lower-income residents so they can thrive in a mixed-income community.”

The idea is to do this in a way that is true to the history of Bronzeville, Clancy says, and that restores the fabric of a historic Chicago neighborhood. “The bottom line for success is that all the stakeholders remain committed to this great public investment and all the right resources are aligned,” he says. “We have an opportunity to use what we’ve learned about mixed-income developments over the past 30 years to ensure efforts will be successful in Bronzeville.” ■



Housing Matters

Visit the Foundation's Web site, www.macfound.org, for an electronic version of this newsletter and more information about MacArthur efforts related to housing.

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Foundation

The John D. and Catherine T.
MacArthur Foundation

140 South Dearborn Street
Suite 1200
Chicago, Illinois 60603 USA

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