NEIGHBORHOOD REINVESTMENT -- FOR WHOM?

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About The Author

Dennis R. Marino is the Associate Director of the Woodstock Institute. The Woodstock Institute is a non-profit organization which conducts research, training, and education for the public, private, and voluntary sectors about ways to ameliorate disparities in the availability of capital and credit.

He has authored and co-authored numerous articles on private and public neighborhood reinvestment efforts including: Massachusetts Community Development Finance Corporation as a Vehicle for Reinvestment; Mortgage Pools: Tools for Stimulating Reinvestment; and Demand, Supply and Marketing of Single-Family Mortgage Credit.

Mr. Marino has also served as a consultant to small businesses; financial corporations; local, state and federal governments; and community organizations. He is a member of the American Society of Planning Officials, The American Institute of Planners and The Chicago Regional Housing Study and Action Group.

Mr. Marino was educated at the following institutions: B.A., History, St. Joseph's College of Philadelphia, Pa.; and Master of Urban Planning and Policy, University of Illinois at Chicago Circle, Chicago, Il.

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Summary

This paper is the final paper submitted for review by participants in the Missouri Housing Development Commission's Housing and Neighborhood Investment Study.

The paper is not intended to be a comprehensive overview of the strategy papers which have preceded it. Instead, it is designed to sound a note of caution to neighborhood residents and policymakers who are in the process of deciding which of the previously described strategies should be implemented.

The authors describe the growing concern over who benefits from neighborhood reinvestment and revitalization, and suggest that policymakers carefully consider the goals, unintended consequences and negative impacts of reinvestment efforts. They present selected testimony from a recent Congressional Hearing on the relationship between neighborhood revitalization and displacement. They also review a sample of strategies which have been implemented to counteract displacement and insure that existing residents of inner city neighborhoods benefit from neighborhood reinvestment programs.

The paper concludes with a statement that it is in the fiscal interest of the state of Missouri to attempt to achieve neighborhood economic integration through reinvestment without causing displacement of existing residents.

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As a result of the dialogue which has evolved among neighborhood residents, lenders and public officials over the last decade concerning the plight of older city neighborhoods, effective neighborhood reinvestment programs have been implemented in several cities. Generally, the commitment which has occurred as a result of these efforts has provided financing which enables residents to purchase housing, rehabilitate older dwellings and refinance existing mortgages. However, during the past year there has been a growing concern over whether or not existing residents of older city neighborhoods will be able to benefit from the reinvestment strategies which they have helped implement. In some cases, the credit generated as a result of reinvestment efforts will finance the acquisition and major rehabilitation of inner city property by middle and upper income, non-inner city residents. This growing segment of inner city migrants is finding inner city housing an attractive bargain given the relatively high cost of suburban housing and the transportation related expenses incurred by suburban commuters. However, this phenomenon should not necessarily be perceived as a problem, but should be viewed as an opportunity to facilitate economic integration in communities which are populated exclusively by very low income residents. Since such communities are usually characterized by a considerable supply of vacant housing and vacant land, such integration might be accomplished with a minimal amount of initial displacement. However, unless income generating and equity stakes are created for the poorer residents of the neighborhood, then those residents are likely to be forced out as middle income demand for housing, property values, rents, and tax assessments increase. Unfortunately, there are few examples of neighborhoods which have undergone economic integration that were able to provide income generating opportunities for a significant number of poor residents.

In July, 1977, the Senate Committee on Banking, Housing and Urban Affairs held hearings on displacement. During the course of this hearing, Senator William Proxmire (D., Wisconsin) made the following statement which summarizes the concerns of a number of urban policymakers and neighborhood residents.

> The save the neighborhood movement has come of age. Now is it the time to ask: save the neighborhood for whom? Will the increasing pace of neighborhood revitalization yield healthy, diverse communities, /or/ dislocate the old, the poor, and the black residents from older neighborhoods which are newly attractive to young professionals? ... How can public policy reconcile the need to upgrade existing housing stock and to attract the middle class back to cities with the even greater need to provide decent housing for the poor? How can we prevent the game of musical chairs that we had under urban renewal, which dislocated more poor people than it housed-which, I guess, is one of the greatest ironies of social policy.[1]

The one point that Senator Proxmire overlooked is that there is also a potential for moderate income and lower middle income families to be displaced by reinvestment strategies which are not sensitive to the needs and capacities of existing residents, or which intend to accomplish neighborhood revitalization by changing the tenancy of the neighborhood to one that is upper income.

During the same hearing, Carl Holman, President of the National Urban Coalition, emphasized the reality of the displacement of working class and elderly households which the Coalition discovered during its survey of the impact of neighborhood reinvestment and revitalization on existing residents of selected neighborhoods in 43 cities.

> ...Our local urban coalitions began reporting that despite the middle class out migration trends reported by census analysts and urbanologists, their communities were beginning to experience filtering back of middle income buyers and renters of remodeled houses and apartments who were pushing out those who were no longer able to stay in their old neighborhoods... A new class of urban nomads is being created. They do not want to move, but move they must because they can no longer afford or sustain their claims to housing in older neighborhoods. Others -- including some in this city, [Washington, D.C.] in Baltimore, in Chicago, in Oakland, in St. Louis -- are fighting against considerable odds to hold on to their... physical and financial investments in these neighborhoods. In neighborhoods undergoing revitalization, these people are caught between the vise of middle income renovated areas and the staunchly middle income suburbs. I believe we stand on the threshold of a demographic movement whose effect may well result in the economic resegregation and the "suburbanization" of our cities.[2]

Holman indicated that the preliminary conclusion of the Coalition's survey is that the crucial difference before and after the revitalization in almost all of the neighborhoods surveyed -- with the exception of Neighborhood Housing Service areas -- was the social and economic characteristics of the residents.[3] After revitalization activities were initiated, there was usually a replacement of blue collar workers (black and white), the elderly and the unemployed poor by relatively young, white professionals.[4] According to Holman, displacement occurs on a block-by-block basis in a manner similar to the way racial change occurs from white to black in many inner city neighborhoods. In such cases, there have been few opportunities for economic and/or racial integration.

The problem of displacement is one that must be addressed during the planning state of any neighborhood revitalization program. Once displacement begins, it is often too late to design remedial strategies to maintain or create opportunities for low and moderate income residents.

There are a number of efforts a state or city could undertake to prevent reinvestment at the expense of current neighborhood residents. The revitalization of neighborhoods is often a speculative investment by individual or institutional investors in hope of recapturing later value increases. One option is for the city and/or state to become an investor in order to capture a portion of the added value for the public purpose of subsidizing low and moderate income residents. Another way a city can encourage reinvestment without dislocating current residents is through the property tax mechanism. For example, under the urban homesteading program the reassessment resulting from the increased value of the rehabilitated building is prorated over a certain number of years. In neighborhood revitalization strategies, a similar approach could be employed to insure that current residents are not forced to sell their homes to pay property taxes. Perhaps elderly and moderate income homeowners could be permitted to delay payments of property taxes beyond a maximum level until they sell their homes. Another approach would be in the administration of the building code, either in the form of a modified code for rehabilitated buildings, or on the model that the neighborhood housing services program proposes, a "flexible and sensitive" building code enforcement. Finally, efforts could be made to require that Section 8 housing subsidies be used in buildings undergoing rehab, thus insuring that renter households could remain in the area.

Washington, D.C. has tried another approach to preventing the displacement of current residents of neighborhoods undergoing reinvestment and revitalization. Washington residents are predominately renters, and even single-family homes or townhouses are often rented rather than owner occupied. In November, 1975, the Washington, D.C. City Council passed an ordinance which provided that any owner of a single-family dwelling who seeks to sell that building must first make a bona fide offer of the building to the current renter-occupant, who has 45 days to accept the offer.

In one instance, the D.C. ordinance was used to set aside a sale. Center Properties, a developer, bought an entire block of properties in Adams Morgan, which has recently undergone rapid and extensive rehabilitation. The developer attempted to evict all the tenants on the block. The court, in reviewing the action, found the previous owners had not offered the buildings to the tenants, and set aside the sale. Active community support helped the tenants raise the downpayment money and secure mortgages. The city assisted by providing rehabilitation money through Community Development Block Grant funds.

It is too early yet to determine if the D.C. ordinance will have any effect. Several neighborhoods in Washington are undergoing severe redevelopment pressure, including Capital Hill, Adams Morgan, DuPont Circle, Mt. Pleasant, and others. A staff member for City Council member David Clark, who introduced the measure, felt that the ordinance would have minimal impact for several reasons. First, prices which even unrehabilitated properties have commanded in the redevelopment areas has been very high. Second, many of the current renters do not have the ability to obtain a mortgage, pay a downpayment, or secure rehabilitation loans. Greater financial assistance will be necessary if the city is truly interested in helping renters become owners and preventing dislocation of long term residents from their neighborhoods.

Another city which is attempting to control the rate of reinvestment and revitalization is Hartford, Connecticut. According to City Councilman Nicholas Carbone, Hartford is attempting to direct middle income migration into neighborhoods experiencing weak housing demand and high vacancies so that stable, but moderate income neighborhoods characterized by tight housing markets are not uprooted. This goal is to be accomplished through a marketing and tax incentive strategy.

Another anti-displacement strategy has been implemented by the Association of Neighborhood Housing Developers of New York City. This strategy involves tenants who live in a multi-family building rehabilitating their own building. In exchange for working on the building, they receive a salary provided by CETA funds and are given a priority right to acquire apartments in these buildings which become cooperatives once they are rehabilitated. A variation of this strategy is to provide in kind payment in the form of partial ownership rights to one of the units for long term unemployed residents who work on these buildings.

Conclusion

Reinvestment strategies should be tailored to the unique social and economic fabric of existing neighborhoods to insure that extensive displacement does not occur as an unintended consequence of the increased housing market activity. In those neighborhoods where there is an obvious need to encourage economic integration, an effort should be made to accomplish this without needlessly uprooting existing residents. If any residents are displaced as a result of a strategy initiated by any of the three sectors -- public, private or voluntary -- then it is the responsibility of all three sectors to insure that decent, affordable housing is made available in the same neighborhood from which the residents were inadvertently displaced.

Although in some cases local policymakers may desire the massive influx of middle income households and the substantial displacement and outmigration of moderate income households, society will not benefit from such demographic reversals. If whole communities of low and moderate income residents are forced out of inner city areas by market forces, then it is likely that they will locate in another community in the same metropolitan area -- perhaps an inner ring suburb -- where they are likely to be subjected to the forces of disinvestment which once plagued their inner city communities. Based on the assumption that middle income people pay more taxes then they demand in city services, it might be assumed that some municipalities would benefit and some would lose from the above demographic gymnastics. However, any time an opportunity to nurture economic integration is lost, the public sector will lose.

If the reinvestment -- displacement -- disinvestment cycle is permitted to occur repeatedly, then states will be forced to continue to increase their income maintenance budget and be forced to bail out one community while building up another. On the other hand, a reinvestment-economic integration cycle which would enable lower income people to secure income generating opportunities as a result of the added economic activity caused by the influx of middle income households, might reduce or cause the state income maintenance budget to level off. The actualizing of this theory is dependent on the assumption that lower income people will be able to secure the income generating opportunities without being discouraged by discriminatory practices.

Accomplishing neighborhood economic integration without causing displacement of existing residents is the challenge which confronts all urban residents and policymakers faced with the task of neighborhood reinvestment and revitalization.

Footnotes

[1] U.S. Senate, Committee on Banking, Housing, and Urban Affairs, "Neighborhood Diversity," Hearings, Opening Statement of Senator William Proxmire, July 7-8, 1977.

[2] *Ibid.*, Statement of Carl Holman.

[3] *Ibid.*

[4] *Ibid.*