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Expanding The Nation's Supply of Affordable Housing: An Evaluation of the HOME Investment Partnership Program

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Foreword

At its heart, the mission of the Department of Housing and Urban Development (HUD) is to expand homeownership and safe and affordable housing opportunities for all Americans. One of the most flexible, innovative, and successful programs we use to achieve this vital mission is the HOME Investment Partnership (HOME) Program.

Enacted in 1990, HOME is the first block grant program for housing. It uses a formula, based upon need, to allocate funds to 383 local jurisdictions, 50 States, Puerto Rico, and the District of Columbia. Within broad guidelines, each jurisdiction has discretionary authority to fund a variety of housing-related activities, such as: the acquisition, construction, and renovation of rental housing; renovation and construction of for-sale housing; assistance to homebuyers; rehabilitation of owner-occupied housing units; and tenant-based rental assistance for low-income tenants.

This report updates the earlier findings (a 1995 report) and shows that the principal goals of the HOME program are not only being achieved, but at times exceeded.

It finds that the HOME program has both produced a net increase in local and State government spending for housing programs that assist lower-income households and has attracted new sources of funding for housing activities. HOME has created new homeownership opportunities in inner-city neighborhoods, and two-thirds of HOME-assisted multifamily rental projects serve both moderate and low-income populations. HOME has delivered substantial funding for non-profit developers, expanding the capacity and participation of the non-profit sector in the delivery of housing assistance. It has surpassed the established affordability requirements and assists even more low-income families than the law requires.

All of us at HUD are very proud of the progress we have made. I am pleased to make this report available to all who care about decent, affordable housing and homeownership – the foundation of strong communities across our Nation.

Andrew Cuomo
Secretary of Housing and Urban Development

TABLE OF CONTENTS

EXECUTIVE SUMMARY
BLOCK GRANTS FOR HOUSING: FINAL EVALUATION OF THE HOME PROGRAM

The National Affordable Housing Act (NAHA) of 1990 created the HOME Investment Partnerships Program to respond to housing needs in States, urban counties, cities, and specially-authorized "consortia" of jurisdictions. HOME is the Nation's first block grant for housing—it allocates funds by formula in a "block" to State and local governments, which allows them to fund a variety of authorized program activities. Compared to earlier Federal housing programs that limited States and localities to the special purposes of each program—rehabilitation of rental properties, purchase and rehabilitation of owner-occupied units, and others—HOME gives local officials the authority to choose how to spend housing dollars to meet local needs.

NAHA authorizes State and local "participating jurisdictions" to fund four types of activities: (1) purchase, construction, or renovation of rental housing; (2) renovation or construction of for-sale housing and assistance to individual buyers of housing; (3) rehabilitation of owner-occupied housing units; and (4) tenant-based rental assistance. States and localities must observe the Federal requirements that pertain to each activity. HOME limits the income levels of those who may reside in HOME-funded units, the cost to acquire and develop those units, and the rents that may be charged for rental units, among other things.

In the Summer of 1996, the Urban Institute, under contract to the U.S. Department of Housing and Urban Development, interviewed State and local officials and housing developers to research HOME program issues. We collected data on housing costs from local agency files and downloaded HUD's program management data on property physical, financial, and occupancy characteristics. We also attached geographic identifiers to each project to allow us to study the location of HOME-funded properties. This report is the second report produced under the contract.[1]

We conclude from our research that HOME has made a substantial contribution to State and local affordable housing efforts. We found that participating jurisdictions embraced the flexibility HOME provides to devise and implement housing programs that respond to locally-defined needs. The program has provided substantial new funding for nonprofit developers, in particular, but has otherwise helped State and local participating jurisdictions to initiate or improve their capacity to deliver housing programs. Importantly, the program aids substantially more lower-income households than Federal law requires. However, State and local officials are concerned about their ability to monitor compliance with HOME program requirements, particularly for rental housing projects developed and owned by relatively inexperienced entities.

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[1]See *Implementing Block Grants for Housing: An Evaluation of the First Year of HOME* (HUD Office of Policy Development and Research, November, 1995).

In the pages to follow, we present the major findings from the Institute's research, covering:

- Characteristics of local HOME programs, including decisionmaking, the program's effect on local housing efforts, compliance with program requirements, and program officials' assessments of the program. (Chapter 2.)

- Costs to develop HOME housing, including unit costs and sources of project financing, with special emphasis on HOME-funded rental housing. (Chapter 3.)

- Characteristics of developers of HOME housing, including developers of rental and for-sale housing, with emphasis on the owners who participate in HOME programs, their incentives for investing in housing, and their long-term plans for the rental properties they developed. (Chapter 4.)

- Location of HOME-assisted properties, including analysis of poverty rates and poverty rate changes in census tracts where projects are located. (Chapter 5.)

- Income, ethnic and racial characteristics of the occupants of HOME-funded properties, including a comparison of resident incomes across rental, owner-occupied, and for-sale projects, and tenant-based rental assistance. (Chapter 6.)

- State program characteristics, including the spending choices made by States, the administration of State programs, their response to program requirements, and estimates of HOME's impact on the delivery of affordable housing. (Chapter 7.)

Characteristics of Local HOME Programs

As a block grant, the HOME program affords local officials the flexibility to make their own funding decisions. But early on in the program, policy analysts expressed concern that some of the program's more complex provisions might unduly influence local choices. Confirming our earlier research, we found that local officials made funding decisions guided by local needs and priorities, not the desire to avoid program requirements. Although HOME-assisted rental projects have both tiered income targeting and rent level requirements, officials were not deterred by these complexities in using a majority of their funds to produce rental housing. Clearly, program officials understand the HOME requirements and are using funding productively, often in combination with other Federal, State, and local funds.

Over time, local officials have shifted funding allocations in response to changing definitions of local need. Since the program's inception, local participating jurisdictions have committed a majority of HOME funds to construction or rehabilitation of rental housing, but funding has slowly shifted from rental to homeowner housing. Jurisdictions that had fully committed their funding in each of 1992, 1993, and 1994 reduced their commitments to rental programs from 67 percent of funds in 1992 to 59 percent in 1994. Homeownership funding increased from 17 percent to 25 percent. However, local officials did express concern that national policy changes may force them to shift HOME funding from rental and homeownership housing to tenant-based rental assistance, a HOME activity that now receives comparatively little funding. In particular, work requirements imposed on welfare recipients by the 1996 welfare reform act were expected to produce pressures to use tenant-based rental assistance to help smooth transitions from welfare to work.

HOME has made a major net contribution to affordable housing efforts: in our first report, we estimated that HOME funding *almost doubled the amount of housing subsidy dollars at the disposal of local participating jurisdictions* (but excluding Federal Low-Income Housing Tax Credits allocated by States.) But these gains have been offset partially by shifts in other funding. Federal Community Development Block Grants provided a major source of previous housing funding, but after HOME began, officials in about one-third of jurisdictions shifted CDBG money away from housing and toward other activities to benefit low-income persons or areas. (We have no data on the magnitude of the shift.) Furthermore, HOME program designers hoped that its match requirement would spur new funding commitments from participating jurisdictions, but according to local officials, this happened in fewer than one-half of jurisdictions with a match requirement.

HOME has increased funding and by so doing, has contributed to local capacity to deliver housing programs: 16 of 35 local officials reported creation of new administrative offices to consolidate housing program administration, and 18 of 39 agencies reported hiring new staff.[2] Officials also reported that they established new relationships with other entities involved in affordable housing. In particular, 31 of 39 respondents reported new or improved relationships with nonprofit developers or the local intermediary organizations that support their work. Banks and other private sector organizations also were mentioned frequently as new affordable housing partners.

Confirming findings from our first report, local officials in about one-half of jurisdictions are concerned that some program requirements will be difficult for them to enforce, particularly the requirement to verify tenant income and rents each year in HOME-assisted rental units. In particular, officials worry that subrecipient agencies, which deliver programs on behalf of the administering public agency in a participating jurisdiction, may not monitor projects adequately. Almost all administrators of rental programs (22 of 23 officials questioned) and a majority for-sale program administrators (9 of 13 surveyed) singled out small developers as particularly unlikely to understand (and comply with) program requirements.

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[2]We conducted field interviews in 39 local participating jurisdictions. Information from interviews reflect the views of 39 respondents, except where noted, if fewer than 39 respondents responded to a particular question.

Home Project Developers

The HOME program allows local jurisdictions to subsidize projects developed by all types of organization, including both public and private sector developers, for-profit and nonprofit owners, owners and managers of large numbers of housing units or small holders of only one or a few rental units. The HOME program only requires that 15 percent of the total HOME allocation be committed to projects owned, sponsored, or developed by Community-Based Housing Development Organizations (CHDOs), a type of nonprofit housing developer.

In fact, CHDOs accounted for 26 percent of HOME funds committed for rental and for-sale projects through 1996, and nonprofits of all kinds, including CHDOs, accounted for nearly half of all funds committed—46 percent. Public agencies accounted for another 13 percent. Profit-motivated developers accounted for less than half of the funding—41 percent (20 percent for corporations and 11 percent for partnerships, plus 10 percent for individual developers).

Compared to a HOME predecessor program—Rental Rehabilitation, which emphasized moderate rehabilitation of smaller rental properties—HOME units are much less frequently developed by individual owners. The shift from individual to nonprofit, partnership and corporate ownership forms was welcomed by local officials, concerned that small property owners would find it difficult to comply with HOME's sometimes-complex rental project requirements.

As one indicator of developer ability to comply with requirements, we asked each developer in our sample whether they had prior experience in developing subsidized housing (and thus would be familiar with the types of requirements government agencies impose). We found that 84 percent of nonprofits and 67 percent of for-profit corporations had such experience (compared to only 30 percent of individual developers). Those for whom real estate development is their primary source of income—an indicator of their "sophistication" as property owners—make up 63 percent of the nonprofits and 55 percent of the corporations, but only 38 percent of individual developers. Overall, developers of 63 percent of all HOME rental units have had prior experience developing subsidized housing projects, and developers for whom real estate is their primary source of income account for 65 percent of projects.

The HOME program requires that units be affordable over a number of years. The length of the affordability period is determined by the amount of HOME funds invested, per-unit, and whether or not the project was newly-constructed. The program's reliance on nonprofits, corporations, and partnerships, makes it likely that large numbers of HOME units will remain affordable even after the end of the statutory affordability period. Developers of two-thirds of HOME rental units said they intended to keep project rents below market levels after the affordability period required by the program expired. However, one group—individual investors—is an exception; 71

percent of the units developed by individuals are expected to "go to market" at the end of that period, compared to only 20 percent of units owned by nonprofits.

The Location of HOME Assisted Projects

Neighborhood quality is an important aspect of housing quality, and one of the main goals of the HOME program is to provide high-quality housing to poor households. Because neighborhood poverty rates are a good indicator of other aspects of neighborhood quality, we compared the location of HOME projects to the poverty rates of the tracts in which they are located. Overall, we found that the poverty rates of HOME project neighborhoods depended on the type of participating jurisdiction and the type of HOME project.

HOME-assisted rental units are less likely than public housing units, but more likely than Section 8 certificate or voucher units, to be located in high-poverty neighborhoods. Twenty-two percent of HOME units are located in high-poverty tracts (1990 poverty rates of 40 percent or more), compared to 42 percent of public housing units and less than 9 percent of units occupied by Section 8 certificate and voucher holders (who are free to seek out any qualifying rental unit, regardless of neighborhood). We also found a difference in neighborhood poverty rates between HOME-funded, developer-built, for-sale housing and housing bought by individuals assisted with HOME funds. Twenty-five percent of developer-built for-sale housing was sited in tracts with poverty rates over 40 percent, compared with 9 percent of housing bought by assisted individuals.

The comparatively low poverty rates of Section 8 neighborhoods and neighborhoods chosen by HOME-assisted homebuyers shows that households who are free to choose their own unit—aided by rental vouchers or home purchase assistance—tend to select "better" neighborhoods than do developers who build or renovate rental or for-sale properties. However, the latter investments may help improve the quality of low-income neighborhoods.

We also found that HOME rental units in cities tended to be in the same neighborhoods where poor people lived; units in counties and consortia tended to be more broadly distributed throughout all neighborhoods. Furthermore, we found that rehabilitation projects tended more often to be in poor neighborhoods, compared to acquisition-only and new construction projects, probably reflecting the location of the housing stock in need of revitalization For example, tract poverty rates averaged 31 percent for substantial rehabilitation of rental properties, but only 15 percent for acquisition projects.

Interestingly, HOME projects developed by nonprofits are no more likely to be in high poverty neighborhoods than those of other types of developers, even after controlling for type of jurisdiction and type of housing. The average poverty rate of tracts in which nonprofit rental projects are located, for example, was 25 percent, the same as that for for-profit corporation rentals and actually below that for individual and public rental developers (29 percent).

Very few housing program managers said that they explicitly targeted their HOME investments, either to focus on improving poor neighborhoods or to deconcentrate disadvantaged populations. Rather, spatial patterns of existing housing (e.g, old vs. new), together with developers' choice of neighborhood to work in and perceptions of the demand from different types of beneficiaries, most influenced the location of HOME housing.

Income, Race and Ethnicity of Program Beneficiaries

Only those with incomes below statutorily-mandated levels may reside in HOME-assisted housing. We found that the HOME program not only meets the income limits established by the Congress, but exceeds these requirements by a substantial amount. Almost 90 percent of HOME rental project residents have incomes below 50 percent of median, even though the statute requires that only 20 percent of residents have incomes below this level (in projects with three or more units). Although the program allows homeowner incomes of up to 80 percent of the median, 33 percent of homebuyers and 70 percent of owner-occupied rehabilitation project residents have incomes below 50 percent of median.

One reason why HOME rental projects have been able to serve households at very low income levels is because so many households receive tenant-based assistance: more than one-half (52 percent) of households with incomes at or below 30 percent of median income receive tenant-based assistance, funded by HOME and other programs. As a result, residents with incomes at or below 30 percent of median income pay, on average, 37.8 percent of their income on rent, a percentage below what would be expected if project owners charged the highest rents the program allows. But residents who receive *no* rental assistance pay higher shares of their income in rent: 42 percent *pay more than 50 percent* of their income in rent. Even so, these same households are renting units at a substantial discount below market rents. Units occupied by renters with incomes at or below 30 percent of median rent for anywhere between 43 percent of the HUD-determined fair market rent (for units owned by public agencies) to 68 percent of the market rent (for units owned by partnerships). Nonprofit unit rents are somewhat more deeply discounted than are units owned by some other types of private owners.

The HOME-assisted population in local participating jurisdictions is approximately 38 percent white, 41 percent black, 18 percent Hispanic, and 3 percent "other." Compared to this distribution, blacks receive a share of rental project and tenant-based assistance (47 percent and 45 percent, respectively) that is higher than their share of population, Hispanic households receive a higher share of homebuyer assistance (32 percent) than their population share would suggest, and white households receive a higher-than-expected share of owner-occupied rehabilitation assistance (50 percent).

Characteristics of State HOME Programs

The State portion of the HOME program is sizeable. After set-asides for Indian Tribes (prior to fiscal year 1998), Insular Areas, technical assistance, and other items specified in appropriation acts, the program allocates 40 percent of all remaining appropriated funds to States. By statute, States are participating jurisdictions and may devise programs that fund any mix of eligible HOME activities. States may devise methods for administering their programs that include assignment of program responsibilities among State agencies and/or delegation of functions to local governments, nonprofits, or other entities. Regardless of how such responsibilities are assigned, however, the State always retains ultimate responsibility for compliance with Federal statutory and regulatory requirements.

States have selected a mix of HOME activities that generally resembles that of local programs, although from fiscal year 1992 through 1994, States' share of funds committed to rental projects (48 percent) was lower than the local share to rental (64 percent). Most States report making some major changes in their allocations across activities over the past few years: as with localities, there has been a shift away from owner-occupied rehabilitation and toward homebuyer assistance. Administrators told us that they changed funding allocations most often in response to changing program demand (e.g., evidenced through competitions) and requests from advocacy groups. They less often told us that they shifted funding because of explicit State housing policy decisions. The Consolidated Plan did not prescribe State funding allocations.

States have taken advantage of HOME program flexibility to adopt very different methods for funding and administering programs than was true under the CDBG program, which in some States provided the single largest source of subsidy for affordable housing prior to HOME. States have departed from CDBG program practice in two important ways. First, the CDBG program stipulates that local governments must administer State CDBG-funded projects. All of the States responding to our survey say that State agencies now administer at least some, if not large portions, of their HOME programs. Second, CDBG requires that States fund only projects located in areas that are not otherwise entitled to receive their own formula allocations; in effect, the State's metropolitan areas. In HOME, 41 percent of States allocate funding to all areas of the State, including areas that are PJ s and receive their own funding allocation. Thirty-eight percent of States allocate funds only for projects in areas that are not local participating jurisdictions. Another 21 percent follow the same general policy, but provide some funding to local participating jurisdictions for high-priority projects.

State administrators reported that HOME had increased the amount of funding available for affordable housing. Some administrators reported that because of HOME's income targeting requirements, their housing programs now assisted people of lower incomes than were typically assisted under CDBG. Finally, HOME program funding helped States increase the number and capacity of CHDOs and other nonprofits to undertake affordable housing projects. Most State administrators report they would like to better-serve the neediest areas of their State—rural areas, for the most part. Some do target funding to the neediest areas, but they also report encountering difficulty reaching these areas because local governments and developers lack the capacity to participate in HOME effectively.

EXECUTIVE SUMMARY

CHAPTER 1
RESEARCH ISSUES AND METHODS

This final report from the Urban Institute's evaluation of the HOME program examines a range of issues and represents the culmination of four years of research. Our coverage of State and local program decisions on how to use HOME funds updates our earlier published findings from the first round of research on the program.[1] Other issues covered in this report are wholly new: analysis of housing costs and subsidies, characteristics of developers and residents, and property location. The first part of this chapter reviews the research questions to be answered in this report. The next part describes the methods and samples used in the analysis. (A more complete description of samples and methods is contained in the Methodological Appendix.)

Research Issues

One of the major new programs of the National Affordable Housing Act of 1990, the HOME Program is the nation's first block grant for housing. Funds are allocated by formula based on statutory definitions of housing need. Within broad guidelines, state and local jurisdictions receiving HOME allocations have discretionary authority to fund a wide array of activities ranging from acquisition, construction and rehabilitation of rental housing, support for development of for-sale housing or assistance to homebuyers who wish to purchase housing, rehabilitation of owner-occupied housing, and tenant-based rental assistance.

This new program departed from traditional federal housing programs that specifically subsidized housing production or provided assistance to existing tenants and homeowners. Drawing upon the lessons of the past fifty years, Congress attempted to design a program that gives communities the flexibility to develop programs that respond to local market conditions and housing needs, builds institutional networks for community-based housing development and finance, and encourages broad State and local planning efforts to ensure that the most urgent housing needs are addressed.

Through these mechanisms, the HOME Program attempted to induce lasting changes in the way federally-assisted housing activities are designed and implemented and in the institutions working to address the housing needs of low-income families.

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[1]See *Implementing Block Grants for Housing* (HUD Office of Policy Development and Research, November, 1995).

The Urban Institute's evaluation of the HOME Program documents how the program is being administered at the state and local level; who is participating in its implementation; what types of housing units, households, and neighborhoods are being assisted; and at what cost to various levels of government. The evaluation extended over a four-year period, and involved three rounds of data collection and analysis. The first round of data collection and analysis focused primarily on the process of implementing the new HOME Program. These results were published by HUD in November, 1995. The second round focused primarily on the role of community-based housing development organizations (CHDOs) in the HOME Program. These results were published in a memorandum for HUD in mid-1995. The final round focused on outcomes of the HOME Program, including the characteristics of project sponsors, the costs of HOME housing, the characteristics and benefits of HOME residents and owner-occupants, and the spatial distribution and neighborhood characteristics of HOME housing.

This section describes how the study defines and addresses each of the research questions, including:

- HOME as a Block Grant and Program Match Requirements
- Owners of HOME Program Housing
- Neighborhood Targeting and Spatial Deconcentration
- Residents of HOME Program Housing
- State Administration of the Program.

HOME as a Block Grant

Block grants allow State and local governments to pursue Federally-funded activities according to needs, policies, and programs devised at non-Federal levels of government. The HOME statute prescribes a number of requirements that pertain to housing developed under the program, but basic funding and program design decisions are left to State and local governments. A part of the research undertaken for this study is descriptive: how do State and local governments choose to use their allocations of HOME funds. In this report, we focus on several analytic issues that supplement those covered in our first-round report. These issues are:

- allocation of funds among types of HOME-eligible activities, shifts in allocations of funding over time, and reasons for local allocations of funds to programs and changes in this allocation, with particular emphasis on the possible influence of HOME requirements on local decisions;

- the effect of HOME on local affordable housing efforts, including the role of the match requirement in stimulating new public contributions, the potential re-direction of Community Development Block Grant funding previously allocated to housing, and the role of HOME in fostering new relationships among actors in the affordable housing system;

- the ability of local administrators to effectively ensure compliance with HOME program requirements, particularly those that apply once properties are placed into service, and whether some types of developers are more likely than others to have difficulty complying with these requirements;

- the recommendations of local program administrators for changing the program, and their forecasts of the possible effects on HOME of changes in Federal and State policies and programs, including welfare reform and changes to public housing, among others.

Owners of HOME Program Housing

Our second round of data collection examined the role of nonprofit organizations in developing HOME-assisted housing, and focused particularly on the characteristics of Community Housing Development Organizations (CHDOs). This report examines investor participation in rental and homeowner property development more broadly. It examines both for-profit and nonprofit property developers and describes their investment motives and their legal, financial and organizational characteristics.

These characteristics are important for several reasons. Because some HOME requirements are complex, the relative "sophistication" or experience of project developers is an important factor in local jurisdictions' ability to ensure compliance with Federal program requirements. In addition, some investors are more interested in keeping units affordable even after the expiration of the required affordability period. Therefore, our research:

- Examined whether different types of housing providers—for-profit and nonprofit, and various categories of for-profit developer—were more often funded in certain jurisdictions and programs, and compared these distributions to those in the Rental Rehabilitation program (a predecessor program of HOME),

- Described previous program experience and the primacy of real estate activities to developer incomes as a way to characterize the relative sophistication of project developers, and tied this to developer motivations for investing in real estate and the particular property they developed under HOME, and

- Tied developer characteristics to affordability period and whether the developer intended to take the property "market rate" upon expiration of the HOME affordability periods.

Location of HOME Program Housing

The location of HOME-assisted units and residency of HOME-assisted tenants is important for two reasons: HOME is used by local officials to promote neighborhood stability or revitalization and national public policy in conjunction with Federal site and neighborhood standards are intended to prevent new construction of affordable housing in heavily minority neighborhoods. Clearly, these two purposes can conflict. Neighborhood revitalization objectives may suggest that new units be sited in poverty neighborhoods, even though residents may prefer to live in "better" neighborhoods where their prospects for upward mobility may be better. In contrast, deconcentration clearly dictates that units be sited in better neighborhoods, which may not be neighborhoods that suffer physical deterioration.

This report examines the neighborhood dimensions of local HOME programs, by examining the following issues:

- Where are HOME-assisted units located (including units occupied by those with rental and home purchase assistance) and how is location affected by jurisdiction type, project type, and the type of ownership (for-profit and nonprofit)?

- How does the location of HOME projects vary across types of HOME programs, including rental, homebuyer, and owner-occupied rehabilitation? In particular, how different are the location choices exercised by for-sale project developers compared to the units purchased by homebuyers who are free to select any unit they can afford throughout the jurisdiction?

- How do the locations of HOME-assisted units compare to those of local public housing units?

Residents of HOME Program Housing

This portion of the analysis examines the program's performance in serving low-income and minority households and delivering benefits to unit occupants. Issues concerning HOME residents fall broadly into two categories: targeting performance of the program, in terms of income levels, ethnicity, and elderly status, and benefits accruing to residents of HOME-assisted properties.

Of considerable interest in the HOME program is the targeting of the program to income groups. The program statutes stipulate minimum targeting requirements, in terms of the maximum income levels of those assisted, and in the case of rental housing, varying percentages of project occupants at various income levels. A portion of our analysis is descriptive: what are the income levels of those in HOME-assisted properties. In addition, we are interested in:

- how income levels of project residents compare across types of HOME activity—rental, homebuyer, owner-occupied rehabilitation, and tenant-based rental assistance—and how those compare to the minimum levels required by statute,

- how unit occupant incomes and race/ethnicity are affected by characteristics of jurisdictions. projects, and types of project owners, particularly the difference between for-profit and nonprofit owners, and

- whether HOME projects contribute to income and racial/ethnic deconcentration as shown by the relationship between income, race and ethnicity of projects and that of project tracts, and the mix of income and racial/ethnic groups within HOME-funded projects.

Benefits to HOME project occupants include improvements to unit quality and affordability relative to their residence prior to their participation in HOME. Of particular interest is how affordability of project units is related to the ownership of projects, on the expectation that HOME-funded nonprofit projects would be more affordable to unit occupants than projects sponsored by for-profit developers. In addition we examine how the unit affordability in rental projects compares to the affordability one would expect if all project owners charged the maximum rents allowable, which could produce very high rents for those with very low incomes. In addition, we are interested in resident ratings of their units, including how their current unit, building, and neighborhood compare to their previous one, and resident expectations about neighborhood change.

State Program Administration

Our final set of analysis issues concerns State administration of the HOME program. States receive 40 percent of HOME funding, and thus their use of funds and administration of programs is of fundamental importance. However, little is known about how States use the program, and in particular, what administrative arrangements they have worked out to ensure that projects comply with program requirements. In our review of State programs, we:

- describe State program allocations to HOME activity type, trace changes in these allocations over the first three fiscal years of the program, and suggest why these changes have occurred;

- examine State methods for allocating funds under the program, including State funding of shortfalls and use of formulae to allocate funding within States, and the variety of competitive methods States have adopted to award funds to projects;

- define models of State program administration, characterized by relationships among State managing agencies, subrecipients, project sponsors, and others involved in program administration; and

- present State officials' concerns about HOME requirements, and their summary opinions about the effects of the HOME program in their States.

Methods and Samples

This evaluation relied on multiple data sources, including HUD's automated management information on project characteristics, budgets, and occupants, telephone and field interviews with State and local jurisdiction housing program administrators, telephone interviews with nonprofit organization directors, field and telephone interviews with project sponsors or owners, and telephone interviews with residents of HOME-assisted housing.

The final round of data collection relied on all of these information sources, including:

- **Program Officials Survey** to collect evaluative information from State and local program administrators on their uses of HOME funds, housing subsidy policies, property and neighborhood selection, and response to statutory and regulatory provisions of the program. Thirty-eight State program administrators were surveyed by telephone; local program administrators in a sample of 39 Participating Jurisdictions were surveyed on-site.

- **Property Owners Survey** to collect evaluative information from owners, sponsors, or managers, of our sampled HOME-assisted rental properties (noted above) and a sample of for-sale housing projects, including project cost and financing information. These data supplement information contained on HUD's Cash and Management Information System (C/MIS), and data collected on-site from agency records. Property owners of a sample of 299 HOME-assisted properties were surveyed in-person.

- **Residents Survey** to collect data on program benefits from occupants of HOME assisted housing, including resident evaluations of housing units and neighborhoods. A sample of 297 residents were surveyed by telephone.

This research relies on the considerable analytic power of the C/MIS System, which contains property, unit, and beneficiary information for each HOME-assisted property. In addition, spatial analysis of HOME properties makes use of geocoded address information from the C/MIS and automated information from the U.S. Census.

To select our samples, we devised a multi-stage design in which project and beneficiary samples were derived from our original sample of 40 participating jurisdictions. The reasons for this approach were primarily logistic. Project-level data collection involved a combination of in-person interviews and extraction of information from local files. Therefore, sampled projects had to be located in the same communities visited on-site for the Program Officials Survey. Further, although beneficiary-level surveys were conducted by telephone, administration of these surveys required contact information that could only be assembled in the course of on-site discussions with program officials and project sponsors. The Methodological Appendix at the back of this report shows the relationships between the samples used for this data collection effort.

CHAPTER 2
LOCAL HOME PROGRAM CHARACTERISTICS

Introduction and Summary of Findings

HOME was designed as a block grant program to provide State and local governments the flexibility to finance affordable housing efforts within a framework of national objectives. Designers of the program hoped that HOME funds, coupled with match funding requirements, would increase investments in affordable housing. In return for new flexibility and new funding, HOME delegates to State and local governments responsibility for observing Federal law and ensuring that project developers they fund do so as well.

In this chapter, we draw on HOME project commitment data and interviews with officials of local participating jurisdictions conducted in the summer of 1996 to examine issues of: (a) local decisionmaking; (b) HOME's effects on affordable housing investment; and (c) local compliance with program requirements. We also report on (d) local officials' evaluative comments on the HOME program and how it may be affected in the future by changes in the national housing environment. Where appropriate, we compare the findings from our most recent data collection to results from our two previous data gathering efforts.

Overall, we conclude that local officials continued to use the HOME program to respond to local housing needs, despite program requirements that may have deterred them from pursuing certain kinds of HOME activities. However, an estimated one-third of jurisdictions have reduced their CDBG funding commitments to housing since HOME began. The program's match requirement has generated new funding for housing in fewer than one-half of local participating jurisdictions that must meet the requirement. Nevertheless, HOME has increased net funding for housing and helped local jurisdictions, particularly smaller ones, forge new relationships with other housing actors; e.g., nonprofit developers and financial institutions.

Local Decisionmaking. Since the inception of the HOME program, local participating jurisdictions have committed most of their HOME funds to rental housing projects. However, we detected a shift between 1992 and 1994 away from rental and toward homeownership assistance. A subset of jurisdictions—those that committed more than 90 percent of their funding in each of 1992, 1993, and 1994 (thereby giving a complete picture of their funding choices)—showed a decline in their rental program commitments from 67 percent of total commitments in 1992 to 59 percent in 1994. Homeownership funding increased from 17 percent to 25 percent of total commitments.

Local officials attributed this change and others they deemed "significant" compared to earlier program years to local political re-definitions of priority housing need. This conclusion from our most recent round of data collection confirms our earlier findings: few local officials made funding decisions based on a desire to avoid the more complicated requirements that pertain to some types of HOME activities. In addition, about one-half of the officials we interviewed viewed the five-year Consolidated Plan (a strategy document required of all HOME and CDBG recipients) as "very" or "somewhat" useful to their decisionmaking. The most useful feature of the Plan was its public statement of priorities and its value as a way to keep local officials and politicians accountable to those priorities.

HOME Effect on Affordable Housing. In our first round report, we estimated that HOME funding about doubled the amount of housing subsidy dollars at the disposal of local participating jurisdictions. (This estimate excluded Low-Income Housing Tax Credits, allocated by States.) We also found that new HOME funding indirectly produced increases in spending for other community development purposes. Our 1996 round of data collection confirms this result: about one-third of participating jurisdictions had re-allocated CDBG dollars previously used for housing to economic development, public services, and other activities to benefit low-and-moderate income persons. In other words, new HOME funds did not always result in dollar-for-dollar increases in housing spending, but they did allow local jurisdictions to exercise the flexibility available under another HUD program to pursue non-housing community development goals. Of course, HOME's match requirement could have produced increases in State and local funding for housing in the less-distressed jurisdictions that must meet this requirement. We found that about 40 percent of officials in those jurisdictions reported such an increase.[2]

Nevertheless, it is clear that HOME represents a major gain to affordable housing efforts, despite a shifting of CDBG funding from housing to other community development activities in some jurisdictions. In addition to overall increases in net funding, local officials reported gains in local capacity to deliver housing programs: 16 of 35 local officials reported creation of new administrative offices to consolidate housing program administration, and 18 of 39 agencies reported hiring new staff. Officials also reported that they established new relationships with other entities involved in affordable housing. In particular, 31 of 39 respondents reported new or improved relationships with nonprofit developers or the local housing intermediaries that support their work; banks and other private sector organizations also were mentioned frequently.

Program Accountability. Continuing a theme established in our first report on HOME, local officials remain concerned that the program's requirements on the income levels of rental project occupants are difficult for them to enforce. Officials in 18 of 37 jurisdictions raised this concern. In

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[2]Because of the complexities of local funding flows for housing and community development, we chose not to invest the substantial amounts of field research time needed to estimate the amounts of CDBG funds redirected from housing to other purposes, or the increased amounts produced by the match requirement.

particular, officials worry that some delegate agencies, which deliver programs on behalf of the "lead" agency in a participating jurisdiction, may not monitor projects adequately. Almost all administrators of rental programs (22 of 23 officials questioned) and most managers of developer for-sale programs (9 of 13 surveyed) singled out small developers as particularly unlikely to fully understand and comply with program requirements.

Summary Program Assessments. We took advantage of our conversations with local program officials to ask them how possible changes in national housing and other policies may affect their communities' use of HOME funds. Officials believed that certain changes might produce a shift in HOME funding from rental and homeownership housing into tenant-based rental assistance, a little-used HOME activity. In particular, the work requirements imposed on welfare recipients by the 1996 welfare reform legislation are expected to produce pressures to use tenant-based rental assistance to help smooth transitions from welfare to work.[3]

Local Decisionmaking

The first report on the HOME program, covering initial implementation of the housing block grant, found that allocation of funding among HOME-eligible activities—rental housing, homeownership, owner-occupied rehabilitation, and tenant-based rental assistance—was driven largely by local community development needs and localities' existing capacity to carry out programs. Less important was the effect of HOME program rules, which could have deterred some jurisdictions from pursuing activities that fell under the more complicated provisions of the program; e.g. rental housing with its complex occupancy and affordability requirements.

Analysis also shows that about half of local PJ officials surveyed in the second round of data collection in 1995 reported major changes in the share of funds they allocated among the four activity types. Assignment of program responsibility among agencies may have changed as well. Further, we suspect that decisionmakers may have changed the way they think about the HOME program in relation to other housing programs. Initially, HOME represented new money, not already "encumbered" by past program allocations. In at least some communities, new money presented jurisdictions with an opportunity to pursue new activities not previously supported by earlier categorical programs or CDBG. With the accumulation of several years' experience, local decisionmakers now seem to regard HOME as just one of several sources of affordable housing dollars.

This portion of the analysis describes changes over time and explains why they have occurred, specifically:

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[3]Of particular importance at the time of our interviews, but of decreasing importance since then, local officials decried the potential loss of Low-Income Housing Tax Credits, which were under attack in the Congress at the time of our interviews.

- changes in the mix of activities selected for funding and the allocations of dollars among these activities,

- the factors that influence changes among activities, including increased familiarity with the HOME program, changes in national program rules, and changing definitions of priority needs, and

- how decisionmakers define need: the CHAS that applied to the first years of the program has been replaced by the Consolidated Plan, which mandates needs assessment and strategy development across a range of community development program areas, not just housing; this may have led to a different use of Federal and local affordable housing and community development resources.

Program Allocations and Local Decisionmaking

From the beginning of the HOME program in Fiscal Year 1992, local officials established and maintained a general funding preference for rental housing. Among the four activity types, rental housing has maintained a consistently high share of national expenditures, accounting for about 59 percent of total funds committed as of September 30, 1996. The first round report, which reported on funding commitments as of July 27, 1994, found only modest differences among types of participating jurisdictions in the shares allocated to rental housing or other housing types.[4] Those differences remain modest.

In recent years, the Federal government has promoted low-income homeownership through enforcement of Community Reinvestment Act requirements, requirements that Fannie Mae and Freddie Mac meet targets for the volume of mortgages they purchase from "underserved" areas, and most recently, through HUD's Homeownership Zone initiative. These efforts may reinforce what appear to be widespread local political initiatives to encourage homeownership through development subsidies, tax preferences, land assembly and other means.[5] Together, these may have contributed to the increasing shares of HOME funding commitments made to homeownership projects.

Table 2.1 shows the amounts and percentages of HOME funds committed by local participating jurisdictions to each of the four major HOME-eligible activities from each of their Fiscal Year 1992, 1993 and 1994 allocations. The table includes only those jurisdictions that had committed more than 90 percent of their HOME allocation for the fiscal year shown (less amounts

[4]See *Implementing Block Grants for Housing* (Office of Policy Development and Research, November, 1995).

[5]See a study of community development in 23 cities conducted by the Urban Institute and Weinheimer and Associates, *The Performance of Community Development Systems* (National Community Development Initiative, November 1996).

committed for administration and CHDO capacity-building purposes). The table shows modest increases in the percentages of HOME commitments made to homeowner activities, rising from 18.8 percent of HOME commitments from Fiscal Year 1992 allocations to 25.3 percent of Fiscal Year 1994 allocations.

The table shows that the homeownership share appears to be rising at the expense of both rental housing and owner-occupied housing shares. However, the table includes different numbers of participating jurisdictions in each year, and the changing mix of jurisdictions may affect the relative

Table 2.1
Percent of HOME Funds Committed to Activity Types by Fiscal Year of Allocation
FY 1992-1994
(Dollars in Millions)

	Fiscal Year					
	1992 (n = 332)		1993 (n = 296)		1994 (n = 242)	
Program Type	Dollars	Percent	Dollars	Percent	Dollars	Percent
Rental	$ 451.6	60.0%	$ 265.9	59.0%	$ 228.4	57.8%
Homeowner	141.4	18.8%	104.7	23.2%	100.1	25.3%
Owner-Occupied	140.3	18.6%	69.2	15.4%	58.9	14.9%
Tenant-Based Rental Assistance	19.5	2.6%	11.0	2.4%	8.0	2.0%
Total	$ 752.8	100.0%	$ 450.8	100.0%	$ 395.4	100.0%

n = Number of cities with greater than or equal to 90% of HOME funds committed.
Source: HUD C/MIS

shares allocated to each activity in any given year. Therefore, Table 2.2 shows a subset of 184 jurisdictions that had committed 90 percent of their HOME allocations in each of Fiscal Years 1992, 1993 and 1994. The table confirms the increasing share of funding to homeownership, and also shows that in this subset of jurisdictions, the shares allocated to rental housing are declining as a result. From the 1992 HOME allocation, this subset of jurisdictions committed 67.3 percent of their funding for rental housing, 16.8 percent of funding for homeownership, 14 percent for owner-occupied rehabilitation, and a mere 1.9 percent to tenant-based rental assistance. From the 1994 allocation, the rental housing share had declined to 59.9 percent of total commitments, and the homeownership percentage had risen to 24.9 percent. Other activities remained fairly constant.

At least some of this increase is the result of more jurisdictions funding homeownership, although this percentage already was high at the beginning of the period. Table 2.3 shows the percentage of jurisdictions in our subset of 184 jurisdictions that committed funds to any of the four

Table 2.2
Percent of HOME Funds Committed to Activity Types by Fiscal Year of Allocation
By Jurisdictions With More Than 90 Percent of Funds Committed in All Years, 1992 - 1994
(Dollars in Millions)

	Fiscal Year					
	1992		1993		1994	
Program Type	Dollars	Percent	Dollars	Percent	Dollars	Percent
Rental	$ 315.8	67.3%	$ 199.0	64.4%	$ 205.8	59.9%
Homeowner	78.9	16.8%	66.7	21.6%	85.7	24.9%
Owner-Occupied	65.8	14.0%	37.9	12.3%	45.4	13.2%
Tenant-Based Rental Assistance	8.8	1.9%	5.3	1.7%	6.6	1.9%
Total	$ 469.3	100.0%	$ 308.9	100.0%	$ 343.5	100.0%

n = 184 jurisdictions with 90% or more of HOME funds committed.
Source: HUD C/MIS

HOME-eligible activities. The table shows that the percentage of jurisdictions committing funds to homeownership housing increased from 73.4 percent for the Fiscal Year 1992 allocation to 82.6 percent for the Fiscal Year 1994 allocation.

In our on-site discussions with HOME program officials in 39 jurisdictions throughout the late Summer and early Fall of 1996, we asked about the factors that may have influenced local decisions to allocate funds to certain activity types or to make changes in the mix of activities they funded. Based on our two previous rounds of interviews in 1993 and 1994, we had concluded that local officials selected activities based primarily on their understandings of local housing needs and the corresponding capacity to deliver housing programs to meet them. In addition, some jurisdictions chose to fund new activities to meet local housing priorities. We found that local officials did not make major funding decisions based on a desire to avoid compliance with certain HOME program requirements. For example, they did not avoid rental housing in an attempt to bypass the administrative burden of monitoring project compliance with program rent limits or occupancy requirements over an extended affordability period.

We found no evidence in our 1996 round of field investigations to suggest that administrators had become more sensitive to HOME program requirements in making decisions on which *activities*

Table 2.3
Percent of Jurisdictions Committing Funds to Activity Types by Fiscal Year of Allocation FY 1992-1994

	Fiscal Year		
Program Type	1992 Percent	1993 Percent	1994 Percent
Rental	90.8%	90.8%	85.3%
Homeowner	73.4%	76.6%	82.6%
Owner-Occupied	68.5%	66.8%	64.1%
Tenant-Based Rental Assistance	21.2%	17.9%	20.1%

n = 184 jurisdictions with greater than or equal to 90% of HOME funds committed.

Source: HUD C/MIS

to fund; e.g., rental versus homeownership housing. By and large, they had little effect. However, the requirements did have some affect on which *projects* to fund. For example, some administrators reserve HOME funds for rental projects funded by the Low-Income Housing Tax Credit, which like HOME, restricts rent levels and resident incomes. These projects often are sponsored by developers with experience in previous housing programs, and who may find it easier to comply with reporting and other project requirements. Administrators then used CDBG funds for other rental projects sponsored by smaller, less sophisticated investors.

To determine whether certain HOME program requirements influenced local decisions, we presented program staff with a list of requirements, and asked them to tell us whether each had a "very important," "somewhat important," or "not very important" influence over their selection of "which activities to fund." Their responses are summarized in Table 2.4. Items in the table are listed in descending order of the number of officials who responded "very important" as an influence.

Table 2.4
Factors Rated as "Very" or "Somewhat" Important Influences on HOME Funds Allocations to Activity Types
(Number out of 39 Respondents)

	Reported Importance		
Factor	Very	Somewhat	Very or Somewhat
Income or Occupancy Standards	13	11	24
24-Month Commitment Deadline	11	10	21
CHDO Set-Aside	10	9	19
Admin Cost Limits	8	7	15
Ongoing Monitoring Requirements	8	14	22
Program Match Requirements	8	4	12
Length of Compliance Period	6	12	18
Project Cost Limits	3	8	11

Source: Program Officials Survey

As the table shows, three program requirements were mentioned by more than 10 of the 39 officials we interviewed: income and occupancy standards pertaining to rental properties, the 24-month commitment deadline, by which any fiscal year's HOME funds must be committed, and the requirement that 15 percent of the annual HOME allocation must be committed to projects sponsored by nonprofit Community Housing Development Organizations (CHDOs). The table also shows the percentage of officials that responded either "very" or "somewhat important" to each item. "Ongoing monitoring requirements" and "Length of Compliance Period" are frequently mentioned, although not as often cited as "very important" as the three items noted above. These percentages are roughly comparable to those calculated for our evaluation of the first year, in which about one-third of officials cites HOME program rules as "very important" to deciding how much funding to allocate to various activity types.

We found some evidence that larger jurisdictions with multiple funding sources, larger allocations of both CDBG and HOME, and longer histories of involvement in housing, may be more attentive to the effect of HOME program requirements than smaller jurisdictions. We calculated the number of jurisdictions that cited seven or more of the nine items listed in Table 2.4 as "very" or "somewhat" important. Of the seven jurisdictions that fell into this category, six were jurisdictions over 500,000 population; roughly half of the 11 "large" jurisdictions included in our sample.

Our belief that program requirements had little effect on funding allocations to programs is supported by HOME officials' responses to a question about recent changes in funding allocations. We asked respondents whether their current (1996) program reflected any "substantial" changes in funding allocations across program areas compared to the previous year's allocation. Fourteen of 39 officials said that they had, consistent with responses to a similar question asked about their 1993 program in our first year study (19 of 40 officials responding "yes.").[6] When offered a short list of closed-ended responses from which to choose, 12 of the 14 officials responded that the change was in response to "changing definitions of local needs." Only two of the 14 officials said the change was due to "changes in federal requirements" as a result of statutory amendments that relaxed or clarified some of the more controversial program requirements. One official cited "familiarity" with the HOME program as a reason for the change. In addition, 18 of 39 officials said they expected substantial changes "in the future," suggesting that program choices have not been locked in. No official offered a reason for future changes other than a local re-definition of housing priorities; i.e., they reported no pending, delayed, response to program changes.

How local jurisdictions establish housing priorities is of some interest to policymakers. A block grant concept allows local jurisdictions to identify needs and adopt funding strategies to meet them, independent of Federal definitions of priority needs.[7] Nevertheless, the Federal government has articulated an interest in the process by which local needs are identified, holding that local housing policies should be shaped by an involved community informed by high-quality information on local community development and housing problems. The National Affordable Housing Act of 1990 required HOME participating jurisdictions to develop a Comprehensive Housing Affordability Strategy (CHAS) based on U.S. Census data that HUD provided. In 1994, HUD initiated a Consolidated Plan requirement that folded the CHAS and other required application materials into a single submission. The Department hoped that the Consolidated Plan, which covers CDBG, HOME, Emergency Shelter Grants, and Housing Opportunities for People with AIDS, would encourage localities to think more strategically about their use of housing resources.

The first report on the HOME program investigated the role of the CHAS in shaping local uses of the new HOME funding allocations. That report found that in roughly 30 percent of participating jurisdictions, the CHAS process led local officials to make funding choices based on newly-identified needs. In 50 percent of cases, the document ratified existing understandings of need but often proved useful as a public articulation of policy, and in 20 percent of cases the needs identified in the CHAS were simply ignored in funding allocations. We also found that smaller jurisdictions or those that consulted a broad range of groups during CHAS development were more

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[6] Some of these respondents identified a shift of funding into homeownership activities, confirming the pattern shown in the aggregate commitment data. In view of the small numbers of respondents, however, we don't accept the interview data as conclusive.

[7] For example, at Congressional request, HUD compiles an annual estimate of "worst case" housing needs in the United States. See *citation.*

likely to value the CHAS process in making decisions than were larger jurisdictions or those that did not engage citizens in plan development.

For this report, we asked local administrators to tell us whether the Consolidated Plan was "very useful," "somewhat useful," or "not very useful" in deciding which housing activities to fund and at what levels. We also asked whether they did anything differently in terms of program design or delivery because they prepared a Consolidated Plan. In our interviews, we discussed the Five-Year Consolidated Plan, which contains elements commonly included in a strategic plan (needs identification, resource inventories, etc.) rather than the One-Year Plan, which contains detailed funding allocations for the coming program year.

Just over one-half of the officials we spoke with indicated that the Consolidated Plan was "very" or "somewhat" useful to local funding decisions; 6 of the 38 officials with an opinion on this question answered "very" useful, another 16 answered "somewhat useful." The remaining 16 respondents answered "not very" or "not at all" useful. Furthermore, 17 of the 38 officials we interviewed claimed that the Consolidated Plan had influenced some change to local program design or delivery. Most frequently, officials who reported a change mentioned a shift in the types of activities funded. Targeting to particular areas within the jurisdiction and improved coordination or accountability also received multiple mentions.

Views of the Consolidated Plan's usefulness roughly correspond to those of the CHAS, in which a sizeable minority (30 percent) made clear use of the CHAS process to make decisions, and another 50 percent found the document helpful, if only as a statement of needs. Twenty-two of 39 officials found the Consolidated Plan useful even though they had already gone through the CHAS process of needs identification and priority setting. And as with the CHAS, we find that the smaller the jurisdiction, the more likely the Consolidated Plan requirement will be perceived as useful, although the tendency is not strong: None of the large jurisdictions in our sample reported that the CHAS was "very useful" but five of the eleven reported that it was "somewhat" useful.

Finally, we asked officials which elements of the Consolidated Plan were "most useful" and which were "least useful." The most useful aspects of the plan included the public statement of priorities and the use of the plan as a mechanism of public accountability, its role in combining community investments of different kinds (housing, jobs, etc.) into a single document, and the Plan's role of educating the public (including city council) on the range of public investments being made in neighborhoods. Among the least useful aspects of the plan, primarily as reported by those who found the document "not very" or "not at all" useful, were its irrelevancy because localities had their own planning process, or its overly detailed character. Some from among the group of jurisdictions that found the Plan useful also believed that it contained too much detail.

HOME Effect on Local Affordable Housing Efforts

As the designers of the HOME program expected, new national program dollars, coupled with a match requirement, meant a substantial infusion of funds for State and local affordable housing efforts. In the first round report, we estimated that HOME dollars about doubled the amount of housing subsidy dollars at the disposal of local participating jurisdictions (not including Low-Income Housing Tax Credits). However, the first program report showed that about one-quarter of jurisdiction officials expected at least some CDBG funds to be re-directed from housing to other eligible community development activities. This is important because prior to HOME, CDBG funding represented the single-most important source of housing funding in most jurisdictions. Interviews in the second round of data collection in 1995 confirmed this order-of-magnitude estimate of how often CDBG housing funding was reduced. In sum, new HOME funding for housing allowed jurisdictions to take advantage of the CDBG program's flexibility to pursue other activities—job creation, public services—to benefit low-income persons and communities.

Our data collection for this round shows that re-direction of CDBG funding continues. Our second round survey showed that nine of the 39 jurisdictions in our sample had experienced losses of CDBG funding in 1995 compared to the previous program year. Corresponding figures for this year are nine "yes" out of 39 responses to the question "Did your jurisdiction reduce the proportion of CDBG funding going to housing in your current program year?" Of these nine, three were jurisdictions that also answered "yes" to our question in the previous year. Therefore, 15 of 39 jurisdictions (or about one-third) had experienced some decrease in CDBG funding for housing purposes.

Despite offsets, the infusion of new HOME dollars and the required match have produced increases in housing spending, nationwide. Although we have no data on the magnitude of the declines in CDBG housing spending, such declines have not occurred in about two-thirds of jurisdictions. Further, we found no relationship between city size (and CDBG entitlement funding amount) and whether CDBG funds for housing declined. Finally, in the second round of data collection, officials in about 9 of the 23 jurisdictions with a match requirement said that the requirement had produced increases in State and local funding for housing. In this round of data collection, we again asked if the match requirement had produced an increase in local funding for housing beyond what would be contributed if there were no such requirement. Of the 23 jurisdictions in the sample with a match requirement (the remainder received waivers as "distressed" jurisdictions) eight reported that the match requirement increased funding for housing over what would have been contributed with no match requirement.

Our evidence suggests that local officials find the match requirement less burdensome in 1996 than they did in 1995. In 1995, about 11 of 23 jurisdictions with a match said that it was "very" or "somewhat" difficult for them to raise the required amounts. In 1996, we find that seven out of 23 jurisdictions reported it "very" or "somewhat" difficult to raise their match. A portion of this reduction can be explained by the initial difficulty of identifying matching sources of funding, which can then be used in subsequent years. However, we also find that jurisdictions do not establish a match source (or mix of sources) and expect it to remain the same over time. Out of 23 jurisdictions with a match requirement, 12 reported that their match sources had "significantly" changed in the last year or would do so in the future.

Probably because so few jurisdictions reported that funding increased as a result of the match requirement, only six of the 23 jurisdictions with a match requirement reported it had a "positive" impact on their ability to provide affordable housing. Although these jurisdictions cited the additional amounts raised, several also noted the increased "visibility" of housing issues as a result of the need to obtain local funds through the appropriations process. Other respondents said the match had no effect.

The final dimension of HOME effects on affordable housing efforts is the HOME contribution to local ability to administer affordable housing programs. By this we mean the creation of public sector capacity through local administrative change, but also the formation of new relationships among actors in the affordable housing delivery system; e.g., among banks, public agencies, nonprofit agencies, and others.

Asked if HOME had prompted major changes in local administration, 16 of 35 respondents responded that it had. The most frequent change concerned creation of new housing divisions or departments within city government. Prior to HOME, housing programs were run out of the city community development office, funded from CDBG. With new funding for housing, cities created distinct organizational units with new staff to market and administer a variety of housing programs. In addition, 18 of 39 agencies said they hired new staff after receipt of HOME funding. Except in three cases (2 of them large cities) all of the added staff were classified by our respondents as "program delivery" staff, rather than clerical or monitoring staff.

Perhaps most significant are HOME's effects on the relationships among local housing delivery organizations. We asked local officials to tell us whether as a result of the HOME program, public agencies had "established new relationships (or substantially strengthened existing ones) with other housing delivery institutions." We then provided a list of actors, including the State, other jurisdictions, other agencies within the jurisdiction, financial institutions, business or other private sector groups, and nonprofits and nonprofit support organizations.

Perhaps for obvious reasons, respondents most frequently noted new or improved relationships between local public agencies and nonprofits or nonprofit support organizations; 31 of 39 respondents did so. In addition to large amounts of new money for rental projects, where nonprofits traditionally concentrated development activities, the HOME program requires local jurisdictions to commit at least 15 percent of their funding to Community Housing Development Organizations, a form of community-based nonprofit. These findings confirm other research that shows substantial growth nationally in local networks to support nonprofit community development activities.[8]

Officials also mentioned new or improved relationships with financial institutions, businesses, and other private sector organizations; 24 of 38 respondents noted improved relations with banks; 22 of 37 mentioned relations with private sector organizations. Officials' comments suggest that improvements resulted from creation of new HOME-funded rental housing or homeownership programs, most of which require joint project funding with private sector institutions. In addition, several respondents noted creation of new formal partnerships, including support for private sector loan pools.

The final category included creation of new relationships with other public agencies, including State government (18 of 38 respondents), other local jurisdictions (15 of 37) and other agencies within the same jurisdiction (15 of 39). Among the comments on why these relationships have formed or strengthened, local officials cited the Low-Income Housing Tax Credit program and mortgage revenue bond programs (for States), formation of consortia or operation of housing programs in urban counties, and relationships among agencies formed through the Consolidated Plan process or delivery of special needs housing.

Our evidence suggests that HOME's biggest effects in helping promote new institutional ties occur in smaller jurisdictions. We ranked our 39 jurisdictions simply based on the number of other entities they noted as those with whom they had established new or improved relationships. Only one "large" jurisdiction appeared in the top 10 of those listed in descending order of the number of relationships they established (all had five or more mentions). At the other extreme, seven of the 11 large jurisdictions mentioned three or fewer relationships, probably because these jurisdictions already had established ties with a broad range of actors.

Program Accountability

Based on data collected in 1993, the first report for this study showed that jurisdictions expected to have the most problems meeting rental housing and homeownership requirements over the compliance period after which properties are placed into service. Less problematic were compliance problems tied to project development and initial occupancy, and those related to tenant-based rental assistance and owner-occupied rehabilitation.

In 1996, program officials remained concerned that project rent limits and resident income requirements would be difficult for them to enforce over the long term, particularly where delegate agencies are used to deliver programs and where developers are unaccustomed to tracking and

[8]Urban Institute and Weinheimer & Associates, *Performance of Community Development Systems.*

reporting incomes of residents. In 18 of the 37 jurisdictions, officials reported that they would find it difficult to ensure that HOME-funded projects complied with HOME program requirements. Consistent with the findings from the earlier report, rental project rent levels and resident income and occupancy levels present the most serious potential compliance problems.

Some jurisdictions and some types of projects appear more vulnerable to compliance issues than others. Urban counties sometimes rely on constituent units of general local government to deliver housing programs, and consortia appear almost always to do so. Lead agencies in these jurisdictions appear to be more concerned about delegate agency compliance issues than officials in cities, and in particular, officials in larger cities. Unlike relationships among agencies within a single jurisdiction, relationships among agencies across jurisdictions share no common executive to ensure consistent application of program policies. (Arguably, county executives can perform this role, but municipalities within counties have their own executive leadership and staff; this is even more problematic for consortia, where agencies are bound only by the initial agreement to cooperate.)

More troublesome in the eyes of local officials are compliance issues tied to developer capacity and willingness to observe income and occupancy requirements, and for rental projects, to report on these over time. We asked program staff responsible for administering 25 rental and 15 homeownership programs in the 39 jurisdictions we visited to tell us whether they would have difficulty in complying with the applicable program requirements because the developers they funded would have difficulty as well. Twenty-two of the 23 rental program administrators who responded to this question and 9 of 13 homeownership program administrators reported that developers would have difficulty. All of these administrators singled out small developers, who tend *not* to follow formal application procedures, conduct more than rudimentary income verifications, keep strict project accounts, or track resident incomes over time.

Some local officials also noted their own shortages of funding or staff to conduct monitoring, although we did not collect sufficient information about local policies and program funding to determine why these shortages occur. When asked to name three HOME program requirements that they would like to see amended (see discussion below) only one official mentioned the HOME administrative allowance. Several staff noted the mismatch between the long-term monitoring requirement and the five-year spend-out requirement, preventing "escrow" of program delivery funds against future monitoring costs. Apart from the effect of any HOME requirement, several officials noted in our conversations that local restrictions on hiring (even positions funded from inter-governmental aid) hampered their ability to staff up to monitor projects adequately.

Summary Assessments of Program Officials

We offered local officials an opportunity to comment on particular HOME requirements they would like to see amended, as well as the overall effect of HOME on communities' ability to deliver affordable housing. We also asked whether changes to other housing programs, or other actions of Federal and State government, were likely to have an effect on local use of the HOME program. The principal themes emerging from those conversations are reported in this last section.

Offered the opportunity to comment on any HOME rule they would like to see amended, officials mentioned the requirement that units must be occupied by people with specified income levels more often than any other requirement, and by a wide margin. Two problems appeared uppermost: the requirement is difficult for them to enforce and the rule inhibits development of projects to achieve income mix in buildings. As an alternative, a number of officials argued for presumptive low-income benefit based on neighborhood or type of housing. These officials argue that housing in high-poverty neighborhoods is unlikely to be attractive to any but the lowest income residents; management burdens would be eased considerably if income requirements and long-term monitoring requirements could be modified in these areas. Presumptive benefit also could be accorded to housing for special needs populations. We make no comment on the merit of these claims except to note that some developers do achieve income mix in buildings by distinguishing between "HOME-funded units" and "other" units that do not fall under the income or occupancy standards.

Other issues noted by officials, in rough order of their frequency of mention, include the CHDO requirement, which in the eyes of some earmarks funding for a group with suspect capacity and otherwise restricts local flexibility, the match requirement, which some would like to see changed to a "leveraging" requirement that does not involve a public or private contribution, and relaxation of the 24-month commitment deadline, in view of the long lead times required for many complex deals.

Asked broad questions about the effects of HOME on local affordable housing delivery, local officials articulated five principal themes, presented in order of how many times they were mentioned. All of these views from local housing officials received at least some support from research conducted for this report, and the first report published as part of this study:

- Local officials pointed to the inflow of new funding for housing as the principal benefit of the HOME program. As reported earlier in this chapter, these funds have been offset by reductions in CDBG funding for housing, but the match requirement also has prompted increases in local support from other sources.

- According to local officials, HOME allowed local jurisdictions to diversify their housing activities, especially programs to promote homeownership. New unencumbered funds for housing coupled with previous CDBG allocations allowed jurisdictions to expand housing programs and create new administrative capacity.

- Local officials believe that the program has helped increase nonprofit sector capacity because of the new funding for affordable housing, some of which flows into nonprofit-sponsored projects. In addition to direct funding for CHDO projects, localities use the program to directly fund capacity-building and operating support programs for community-based nonprofits.

- Some local officials believed that HOME resulted in jurisdictions' targeting more lower-income households than had been true under CDBG-funded programs. Although nothing in the CDBG program or HOME's predecessor programs (urban homesteading, rental rehabilitation) prevented jurisdictions from targeting persons of very low income for assistance, and some jurisdictions did target to lower-income levels, HOME set explicit targeting requirements for rental housing beneficiaries that are lower than those for CDBG.

- In the eyes of some local officials, HOME helped build new constituencies around affordable housing issues, as did the CHAS process, which highlighted the importance of housing in community development strategies. New money and new programs, in addition to match requirements, were seen as helping establish new institutional links among public agencies, housing funders, and developers.

As noted, we took advantage of our conversations with local officials to probe for possible effects of future Federal and State policies on local HOME programs. We asked about proposals to "voucher-out" public housing or encourage a shift toward more mixed-income developments, and "other" Federal and State issues. We found that:

- Although one-third of local officials believed that possible changes to public housing would not matter to their HOME programs, other officials believed that any changes that reduced unit availability for current housing tenants would heighten pressure on local officials to use HOME dollars for tenant-based rental assistance and rental housing.

- Officials believed the 1996 welfare reform legislation would increase pressure to use more HOME funds for tenant-based rental assistance in order to smooth transitions from welfare to work. Several officials believed that the loss of new incremental Section 8 rental assistance in 1996 also would increase demand for more HOME-funded tenant-based rental assistance. Finally, several officials forecast a demand for HOME rental project funds to preserve affordable housing in the face of expiring Section 8 project-based subsidies.

CHAPTER 3
CHARACTERISTICS OF HOME PROJECT DEVELOPERS

Introduction and Summary of Findings

This chapter examines the characteristics of the developers of HOME rental housing projects.[9] The HOME program allows local jurisdictions to subsidize projects developed by various types of organizations, including both public and private sector developers, for-profit and nonprofit owners, owners and managers of large numbers of housing units, and small holders of only one or a few rental units. The HOME program requires that a minimum of 15 percent of the total HOME allocation be committed to projects owned, sponsored, or developed by Community-Based Housing Development Organizations (CHDOs), a form of nonprofit housing provider. Local jurisdictions, however, may limit the types of owners who participate in HOME-funded programs or encourage participation of certain owner types through program set-asides or other means. Efforts to promote the participation of nonprofit developers appear to be particularly common, particularly development of CHDO capacity to use the 15 percent set-aside.

The pattern of ownership that has evolved under the HOME program warrants analysis for two reasons. First, the program is intended to support preservation and expansion of the low-income housing stock. By subsidizing the acquisition, renovation, and construction of such housing, the program induces property owners to improve the quality of housing occupied by low-income persons, make it more affordable, and keep it in low-income occupancy. Some types of developers may be more reliable and effective than others in achieving these objectives. For example, many housing policy observers believe that socially-motivated nonprofits are more likely to develop housing that will be more affordable over a longer period of time than are for-profit developers. Therefore, this study examined the share of the program's output associated with nonprofits to determine whether their developments are likely to be affordable over a longer period than developments built by profit-oriented developers.

Second, the HOME program imposes a number of requirements on those who develop rental and for-sale housing, as discussed in Chapter 2. Local governments are obliged to ensure that all program requirements are met. As Chapter 2 notes, a substantial number of local officials are concerned that some property developers, particularly those without much experience in developing

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[9]We interviewed for-sale developers for this research, but because of the sample's small size and its over-representation of particular types of developers, we did not analyze the survey results for this report.

subsidized housing, may have difficulty with HOME requirements. The main question here relates to levels of prior experience exhibited by HOME developers.

This chapter contains three sections. The first section describes the allocation of HOME rental and for-sale housing funds by type of developer across types of participating jurisdictions. The next section examines the experience of HOME project developers by type of ownership, in local participating jurisdictions, based on a survey of 179 rental housing developers and 71 for-sale housing developers.[10] The final section presents information on developer satisfaction with their participation in the program. The principal findings of this chapter are as follows:

Developers of HOME-Assisted Projects. Nonprofits have, in fact, accounted for the largest share of the HOME funds committed for projects through 1996—47 percent (56 percent of that share was accounted for by CHDOs). Public agencies accounted for another 13 percent. Profit motivated developers together thus accounted for less than half of the funding—40 percent (20 percent for corporations and 11 percent for partnerships, plus 9 percent for individual developers).

There are notable differences in the types of projects produced by different types of developers. For example, the number of housing units per HOME project averaged 22.6 for for-profit corporations, 15.4 for partnerships, 10.0 for public sector developers, 5.9 for nonprofits, and 4.7 for individual developers.

Experience of HOME Developers. Most HOME developers have relevant prior experience in the field; 84 percent of the nonprofits and 67 percent of the for-profit corporations, but only 30 percent of the individual developers, have had prior experience developing subsidized housing projects. Those for whom real estate development is the primary source of income make up 63 percent of the nonprofits and 55 percent of the corporations, but only 38 percent of the individual developers. Overall, the developers of 63 percent of all HOME rental units have had prior experience developing subsidized housing projects, and developers for whom real estate is the primary source of income account for 65 percent. Thus, certainly in comparison to Rental Rehab, it appears that HOME is attracting a group of developers who ought to be more capable of complying with the special requirements imposed by the program.

Developer Motivations and Plans. The desire to benefit the poor does appear to be an important motivation for HOME developers, particularly the most experienced—69 percent said the benefits of rental housing to low-income people was a "very important" factor in their decision to enter the business. Among those who told us that real estate was their primary income source and

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[10]These developers were selected by sampling projects from the universe of projects completed by the end of March, 1996 in the 40 local jurisdictions sampled for on-site data collection. The project sample was drawn to represent all completed units in the 40 participating jurisdictions previously sampled for on-site data collection. This sample, in turn, was intended to represent the distribution of HOME dollars.

that they had prior subsidized housing experience, 92 percent gave that response. Another indication that these developers are motivated for social reasons is that developers responsible for two thirds of the units are expected to continue operating at below-market rents beyond the required affordability period; only one third of HOME rental units said that they intended to raise project rents to market levels as soon as the "affordability period" required under the program is over.

One group, however, is an exception. Projects of individual developers have shortest requisite affordability periods to begin with (5.8 years on average, compared to 18.2 years for nonprofits) and 71 percent of the units developed by individuals are expected to "go to market" at the end of that period (compared to only 20 percent for nonprofits).

How Developers Assess the HOME Program. Overall, HOME developers appear well satisfied with the program, but this too varies by level of experience. Among all developers, those responsible for only 9 percent of rental units and 10 percent of for-sale units said that their experience with HOME was "not very positive." Among developers who told us that real estate was their primary income source and that they had prior subsidized housing experience, the comparable figures were only 2 percent for rentals and 4 percent for for-sale units. Higher levels of dissatisfaction among inexperienced developers could be explained by their difficulties in learning the ropes of housing production as well as program rules.

Developers of HOME-Assisted Projects

Table 3.1 shows HOME rental and for-sale project commitments by type of project owner for each of the three local participating jurisdiction types; cities, consortia, and counties. These are cumulative program commitments as of September 30, 1996. The last column of the table shows that among ownership types, nonprofits receive the largest share of funds committed, or 46 percent, compared to 20 percent for for-profit corporations, 13 percent for public agencies, 11 percent for partnerships, and 9 percent for individuals. Taken together, profit motivated developers (individuals, corporations, and partnerships) account for 40 percent of HOME funds committed, while public and private nonprofit developers account for 60 percent. The table also shows that the percentage of project funds committed by ownership type does not vary substantially across types of jurisdiction. Consortia commit a somewhat larger share of their rental and for-sale dollars to nonprofits than do other jurisdiction types, counties a slightly smaller share to publicly developed projects.

Given HOME's programmatic attention accords to nonprofit organizations, the amount and percent of funding committed to nonprofits is of particular interest. As the last column of the table shows, local jurisdictions have invested $756 million in HOME funds in projects owned, sponsored or developed by nonprofits. Moreover, cities do not allocate higher percentages of their HOME funds to nonprofits than do urban counties or consortia, although given the distribution of HOME dollar commitments, cities invest substantially more funds in nonprofit projects than do other jurisdiction types.

Table 3.1
Cumulative Local Commitments of HOME Rental and Developer For-Sale Dollars by Jurisdiction and Developer Ownership Type
(Dollars in Millions)

	Jurisdiction Type							
	City		Consortium		County		Total	
Ownership Type	Number	Pct	Amount	Pct	Amount	Pct	Amount	Pct
Individual	$114	9.2 %	$14	8.6 %	$21	10.0 %	149	9.2 %
Corporation	254	20.4	27	16.6	50	23.8	331	20.5
Partnership	144	11.6	13	8.0	19	9.1	176	10.9
Nonprofit								
CHDO	318	25.6	48	29.4	56	26.7	422	26.1
Other	247	19.9	42	25.8	45	21.4	334	20.7
Total	565	45.5	90	55.2	101	48.1	756	46.8
Public	166	13.4	19	11.7	19	9.1	203	12.6
Total	1,243	100 %	163	100 %	210	100 %	1,615	100 %

Source: Compiled by the Urban Institute based on HOME C/MIS data

Because previous evidence suggests that nonprofit housing production is concentrated in larger cities and in the Northeast and Midwest, we conducted a statistical test to determine whether these and other factors influenced the percentage of HOME funds, units, or projects accounted for by nonprofits.[11] Neither region, city size, levels of economic and social "distress" or other factors were found to be statistically related to nonprofit production under HOME.

Clearly, through 1996, CHDOs have already made a sizeable contribution to HOME production. Together, they account for an investment of $422 million; 56 percent of the amount for all nonprofits, and 26 percent of the total for the program as a whole.

Table 3.2 provides basic descriptive information on the numbers of project and units, and the average numbers of units per project for each type of owner. The table shows that nonprofits account for the largest shares of both projects and units under the program; 58.8 percent of projects and 44.1 percent of units. From the beginning of the program through the end of fiscal year 1996, nonprofits accounted for 36,201 units. Corporations and partnerships account for 22.5 percent and 12.8 percent of units, respectively; individuals contribute 11.9 percent of units and public agencies contribute 8.7 percent of units.

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[11]See Urban Institute, *Status and Prospects of the Nonprofit Housing Sector* (Office of Policy Development and Research, March, 1995).

Table 3.2
Cumulative Local Commitments of HOME Rental and Developer For-Sale Projects and Units by Developer Ownership Type
(Number of Projects or Units)

	Projects		Units		Units/Project
Ownership Type	Number	Pct	Number	Pct	
Individual	2,072	19.9	9,789	11.9	4.7
Corporation	815	7.8	18,459	22.5	22.6
Partnership	684	6.6	10,554	12.8	15.4
Nonprofit					
CHDO	3,874	37.3	19,021	23.2	4.9
Other	2,234	21.5	17,180	20.9	7.7
Total	6,108	58.8	36,201	44.1	5.9
Public	715	6.9	7,143	8.7	10.0
Total	10,394	100	82,146	100	7.9

Source: Compiled by the Urban Institute based on HOME C/MIS data

The size of projects owned, sponsored, or developed by different types of developers vary considerably. Projects developed by for-profit corporations averaged 22.6 units and those of partnerships averaged 15.4 units, compared to 10.0 units for public sector developers, 5.9 units for nonprofits, and 4.7 units for individual developers. Within the nonprofit group, the average project size for community-based development organizations (4.9 units) was below that for other nonprofit developers (7.7 units).

Types and Experience of HOME Program Developers

Rental Property Developers

At the beginning of this Chapter, we pointed out that many housing policy analysts suspect that nonprofit and individual owners may be less able than other groups to handle some of HOME's more complex income and occupancy requirements for rental housing, or housing quality and other standards for for-sale housing. And as noted in Chapter 2, local officials concerned about their ability to monitor program compliance overwhelmingly cited small property owners as their area of greatest concern.

The HOME program is not the first affordable housing program funded by HUD and administered by State and local governments. In the 1980s, HUD funded the Rental Rehabilitation program, which encouraged the moderate rehabilitation of smaller privately-owned multi-family properties. (The 1992 Affordable Housing Act folded the Rental Rehab program into the HOME program.) In this section, we compare the types of developers who participated in the Rental Rehab and HOME programs and their experience with other subsidized housing programs. This comparison will show that, compared to the earlier program, HOME developers are more often corporate and nonprofit entities, more experienced, and more dependent on real estate development for their principal source of income than were Rental Rehab program participants. Although program experience or ownership type may not predict any single owner's willingness or capacity to comply with program requirements, local officials believe that smaller, individual developers are most likely to have difficulty. If they are correct, participation of more "sophisticated" developers in the HOME program is a welcome change from previous program experience.

Table 3.3
Number of Assisted Rental Units in HOME Universe, Rental Property Developer Sample and Rental Rehab Program Sample By Ownership Type
(Number of Units)

	HOME Universe		Developer Sample	
Ownership Type	Number	Pct	Number	Pct
Individual	6,791	10.3 %	224	15.8 %
Corporation	17,950	27.3	148	10.4
Partnership	7,356	11.2	471	33.2
Nonprofit	27,415	41.8	539	38.0
Public Sector	6,147	9.4	38	2.7
Total	65,659	100 %	1,420	100 %

Source: Rental Property Developer Survey, Urban Institute (1987)

Table 3.3 shows the units sponsored by developers in our rental property developer sample, including the percentage of units in each property ownership type. As intended, the distribution of sampled units corresponds reasonably well to the distribution of all units in the universe (if corporate and partnership units are combined). In the tables to follow, we primarily report the distribution of units, the basis for our sample. We also refer to percentages of owners. The percentages of owners in our sample (not shown on the table) in relation to the universe are biased in the same direction as are sampled units in relation to the universe: somewhat more individual developers, and fewer public sector developers. Individuals account for 16 percent of the owners sample and 10 percent of all units; corporations and partnerships account for 44 percent of the sample and 39 percent of units; nonprofits account for 38 percent of the sample and 42 percent of units.

Table 3.3 presents the distribution of the universe of HOME-assisted rental units and the characteristics of the Rental Property Developer sample used for the analysis in this chapter. The distribution of units across ownership type in the developer sample is somewhat different from that of the universe of HOME-funded projects, but they are similar enough that we believe the sample to be broadly indicative of the characteristics of HOME developers.

Our field interviews detected a difference in the types of owners assisted under the HOME and earlier rental programs. One-half of the rental program officials (12 out of the 24 we interviewed) indicated that the types of owners they assisted had changed from their earlier rental programs to HOME, or were different from the developers funded under their other, locally-sponsored, programs—the other half said they had not experienced any significant change in their developer mix. All of those who said there had been a change told us either that HOME project developers tended to be larger entities than the small, individual Rental Rehab or CDBG-funded rental property owners, or that HOME developers were more likely to be nonprofits. (About half of these officials told us that this change was a welcome one.)

We also asked officials why the types of developers participating in the program had changed, providing a list of reasons that included: (a) differences in local program design; (b) differences in Federal HOME requirements versus requirements under other programs; and (c) differences in the types of developers active in low-income housing.

Local officials most often told us that more complex HOME requirements had limited the program's attractiveness to smaller property owners compared to CDBG-funded or pre-HOME rental programs. In addition, the types of developers active in their jurisdictions had changed as well, and for a variety of reasons. One official noted the role of the Low-Income Housing Tax Credit in building an industry of affordable housing developers, another the increased role of nonprofits, and another a downturn in local real estate that has increased the attractiveness of subsidized housing development to large, for-profit firms.

The prior program experience of different types of developers in the HOME program is key to our analysis. Previous participation in government programs exposes developers to public sector requirements that pertain to financing, resident income levels, unit rent levels (in some programs), housing quality, environmental and historic preservation standards, labor standards and a host of other requirements, including (in some programs) annual reporting on the incomes of unit residents. Furthermore, because many programs are structured to provide gap financing, developers are required to combine funds from a various sources of public, private or charitable sources. Prior program experience would appear to be an advantage in underwriting projects and ensuring compliance with public requirements.

Table 3.4 shows the percentage of HOME rental projects owners in each ownership category that claimed some experience with other affordable housing subsidy programs, by ownership type. We asked each respondent if he or she had developed a project that used federal, state or local affordable housing program funds within the past ten years. (We supplied a list of Federal program names, including HUD Section 8, Sections 202 and 811, Nehemiah, FHA Insurance Programs and

Table 3.4
Previous Experience of HOME Rental Project Developers
With Other Subsidized Housing Programs and Real Estate as Primary Source of Income
(Numbers of Owners and Units With Characteristic)

Have Experience with Previous Housing Subsidy Programs

	HOME Owners		HOME Units		Rental Rehab Units
Ownership Type	Number	Pct	Number	Pct	Pct
Individual	40	30.8 %	46	20.5 %	28.0 %
Corporation	8	66.7	142	95.9	85.4
Partnership	8	28.6	211	44.8	44.8
Nonprofit	57	83.8	472	87.6	100.0
Public	1	50.0	28	73.7	N/A
Total	95	54.0 %	901	63.1 %	38.1 %

Real Estate is Primary Source of Income

	HOME Owners		HOME Units		Rental Rehab Units
Ownership Type	Number	Pct	Number	Pct	Pct
Individual	24	38.1 %	73	33.2 %	40 %
Corporation	6	54.5	84	57.5	20
Partnership	14	51.5	413	88.1	75
Nonprofit	42	62.7	330	63.5	83
Public	1	50	10	26.3	N/A
Total	87	51.5 %	910	65.4 %	47 %

Source: Rental Property Developer Survey and Urban Institute (1987)

Farmers' Home Section 515.) The table also shows the percentage of units produced within each ownership type by developers with prior experience. Finally the table shows the percentage of Rental Rehab units in each ownership type produced by developers with experience prior to their participation in that program.

Nonprofits are the group most likely to have developed previous projects subsidized by Federal, State or local government affordable housing programs. The table shows that 84 percent of nonprofits had prior program experience, compared to 67 percent of corporations, 50 percent of public developers, 31 percent of individuals and 29 percent of corporations. Overall, just over one-half of HOME rental project developers (54 percent) had previous experience in subsidized housing. Those with previous experience produce a slightly higher share of HOME units than would be expected based on the percentage of developers with experience; 54 percent of developers had experience, but experienced developers account for 63 percent of the units.

In contrast to Rental Rehab, a higher proportion of HOME units are sponsored by developers with previous experience, primarily because of the much lower percentages of units developed by individuals (see Table 3.3): 38 percent of Rental Rehab units were developed by developers with prior experience, compared to 63 percent for HOME. However, the percentage of units developed by experienced developers in each ownership type is about the same in the two programs (except for the small public category).

Familiarity with previous government programs is one measure of relative "sophistication." Another is whether real estate is a developer's main business, suggesting experience with project financing as well as application, management, and accounting systems. These developers may be more likely to regard project compliance reviews and reporting as routine management tasks. Table 3.4 shows the proportion of each type of developer for which real estate is their "primary source of income." Overall, about half (52 percent) of the respondents said real estate provided a majority of their income, and these accounted for 65 percent of HOME rental units. This proportion is somewhat higher than the 47 percent of the Rental Rehab Project (RRP) respondents who said real estate was their main business. Within ownership types, corporate developers of HOME units were more likely than Rental Rehab developers to be full-time real estate professionals, but nonprofit developers were less likely to generate most of their income from development.

Nonprofits, however, are much more likely to derive a majority of their revenue from real estate than are individual developers. As the table shows, nearly two-thirds (63 percent) of nonprofit respondents derive a majority of their income from real estate, while a little over one-third (38 percent) of individual investors' income comes from real estate projects.

To construct a summary measure of "experience" to aid further analysis, we constructed a variable that combined "real estate as primary income" with "previous program participation"," the latter defined as a simple "yes" or "no" variable. A developer with previous program experience and whose primary income came from real estate was considered "very" experienced. A developer with neither previous program experience no real estate as a primary source of income was considered "not very experienced." Developers with *either* primary income from real estate or previous program experience was considered "somewhat" experienced.

Table 3.5 shows the numbers and percentage of sampled units in each category of developer

Table 3.5
HOME Rental Units by Developer Program Experience and Real Estate as Primary Source of Income
(Numbers of Units)

Primary Income from Real Estate?		Previous Housing Program Experience? Yes	No	Total
Yes	Number	615	297	912
	Total Pct.	44.1 %	21.3 %	65.4 %
No	Number	267	216	483
	Total Pct.	19.1 %	15.5 %	34.6 %
Total	Number	882	513	1395
	Total Pct.	63.2 %	36.8 %	100.0 %

Source: Rental Property Developer Survey

generation of primary source of income and previous experience in housing programs. Forty-four percent of HOME rental units were developed by entities with both primary income from real estate activities and previous experience with a government program. Percentages in the remaining cells are roughly similar to one another.

Table 3.6 goes on to show the percentages of owners and units in each owner type that fall into each experience category. The top panel of the table indicates that HOME rental property developers are about evenly split among very experienced (37 percent), somewhat experienced (33 percent) and not very experienced developers (30 percent). Not surprisingly, individual developers tend to be inexperienced, and are much more likely to be so than nonprofit HOME rental project developers. Nearly half (48 percent) of individual HOME rental project developers are not very experienced; i.e., they are part-time developers with no prior experience with government affordable housing programs. In contrast, nonprofit developers are quite different, as more than half (60 percent) are very experienced (full-time developers with previous program participation). In fact, nonprofit rental project developers are almost twice as likely to be very experienced than are any other type of developer.

Table 3.6
Summary Experience Level by Rental Project Ownership Type
(Numbers of Owners and Units)

Percent of Owners By Ownership Type	**Experience Level** Not Very	Somewhat	Very	Total
Individual	48 %	34.9 %	17.5 %	100 %
Corporate/Partner	34.2	36.8	28.9	100
Nonprofit	13.4	26.9	59.7	100
Total	30.4 %	32.7 %	36.8 %	100 %
Percent of Units By Ownership Type				
Individual	57.3 %	31.4 %	11.4 %	100 %
Corporate/Partner	4.1	53.7	42.3	100
Nonprofit	12.5	24.4	63.1	100
Total	15.5 %	40.4 %	44.1 %	100 %

Source: Rental Property Developer Survey

The bottom panel of the table exhibits much the same relationship between ownership type and experience level. Worth note is that only 16 percent of HOME rental units were developed by those with not very much experience.

Investor Motivation

HOME program requirements dictate maximum incomes of project residents and a period over which units must be affordable and occupied by low-income persons; these may be considered the minimum public benefits generated from HOME program investments. Additional benefits may accrue to the program depending on developer motivation. The clearest example of this may be the widely-presumed difference between nonprofit and for-profit developers, the former motivated by the desire to help low-income households and neighborhoods, the latter by the financial returns from property investment. Among the most likely effects of these different incentives may be an owner's propensity to "go to market" with units once the mandated affordability and low-income occupancy period ends. Owners who are altruistically motivated may be more likely to keep units in low-income occupancy over a longer period of time than owners who are motivated primarily by cash flow, property appreciation, or the tax benefits of ownership.

Table 3.7
Incentives to Rental Housing Investment by Developer Development Experience
(Percentage of Developers)

Responding "Very Important" to Following Factors	Experience Level: Not Very	Somewhat	Very
Rental Income	27.5 %	52.7 %	38.1 %
Property Appreciation	27.5	29.1	22.2
Tax Benefits	27.5	24.1	28.6
Benefits to Low-Income Persons	48.1	62.5	92.1
Benefit to Low-Income Neighborhoods	36.5	48.2	82.5

Source: Rental Property Developer Survey

In our interviews with developers, we asked them about their motivations for investing in low-income housing. Tables 3.7 and 3.8 report on the factors that rental developers say influenced their decisions to invest in affordable rental housing, and invest in the specific project sampled for this study. Each table shows how the relative importance of investment incentives varied by developer experience. The percentages in the table are the shares of respondents who said that the listed factor was "very important" to their decision to invest in affordable housing and the sampled property.

Table 3.8
Incentives to Develop Sampled Property by Developer Development Experience
(Percentage of Developers)

Responding "Very Important" to Following Factors	Experience Level: Not Very	Somewhat	Very
Already Owned Property	62.7 %	48.9 %	15.7 %
Acquisition Costs	32.6	41.9	63.0
Const. or Rehab Costs	20.0	39.1	31.8
Financial Return	42.0	37.8	29.2
Property Size/Config.	36.5	48.2	82.5
Property Location	28.6	31.8	63.3

Source: Rental Property Developer Survey

Table 3.7 indicates that the most experienced developers say they were most strongly motivated by benefit to low-income persons and low-income neighborhoods. Ninety two percent of the "very experienced" developers said the benefits of rental housing to low-income people was a very important factor in the decision to enter the business. Similarly, 83 percent of the very experienced developers cited benefit to low-income neighborhoods as "very important." These two factors were of less importance to less experienced developers. The concentration of nonprofit developers in the "most experienced" category accounts for the higher level of social concern asserted by this group. However, what is striking is the high percentage of those in the other groups that report "benefits" to others as important. We lack the data needed to compare these developers' motivations with residential real estate developers generally, but we suspect that entry into the affordable housing business is motivated (and sustained) by non-financial rewards in a substantial number of cases.

Table 3.8 shows the relationship between developer experience and the factors that motivated the selection of the individual property funded by HOME. Two findings are most noteworthy. First, the not very experienced developers were more likely to say that already owning the property was an important factor; almost two-thirds (63 percent) said this factor was "very important." One concludes that these developers did not seek out properties for development as a result of learning about a public program. Rather, they owned a property already, and decided that an announced program would be suitable for its renovation. Second, in contrast, "very experienced" developers appeared much more attuned to physical and locational characteristics of a property. Over 60 percent cited property cost, size and configuration, or location as "very important."

Developer Long-Term Plans for HOME Rental Properties

In the preceding sections, we examined developer motivations for investing in rental property and their relative experience. We found that individual developers were most likely to be those without experience in previous government programs, and more likely not to earn income primarily from real estate activities. Further, almost two-thirds of these owners already owned the property they rehabilitated with HOME funds, and were somewhat less likely to be motivated by a desire to benefit low-income persons or neighborhoods than were other owner types. Conversely, nonprofit owners tend to be more experienced than other types of developers, and appear highly likely to be motivated by a desire to assist low-income persons or neighborhoods. As noted previously, although the HOME program stipulates minimum low-income affordability and occupancy periods, additional societal benefits accrue if developers continue to make units available to low-income persons after the end of the required affordability period.

Are owners likely to keep units in low-income occupancy longer than the required periods? Many in our survey said that they plan to do so. Table 3.9 shows the average affordability period that applies to units developed by each owner type, and the percentage of rental units sponsored by each type that are planned to go "market rate" once the affordability period ends. The last column of the table shows the percentage of total HOME units contributed by the future "market-rate" units in each category.

Table 3.9
Average Affordability Periods and Plans to Take Property "Market Rate" by Rental Project Ownership Type
(Percent of Units)

Ownership Type	Affordability Period Avg. Years	Plan Market Rate at Period End: Percent of Owner Type	Plan Market Rate at Period End: Percent of All Units
Individual	5.8 %	71.4 %	11.2 %
Corporate/Partner	14.8	31.5	13.5
Nonprofit	18.2	19.9	7.5
Other	N/A	26.3	0.7
Total	11.4 %	33.2 %	33.2 %

Source: Rental Property Owners Survey

Individual owner units have an average affordability period of 5.8 years, whereas the affordability period averages 14.8 years for corporate and partnership units and 18.2 years for nonprofits. This of course reflects the per-unit amounts of HOME dollars invested. The table shows that 71 percent of all units developed by individuals are expected to "go market" at the end of the period, compared to about one-third of corporate and partnership units and about 20 percent of nonprofit units. In all, about one-third of units are expected to be converted into "market rate" units once the affordability period ends—i.e., two thirds plan to extend affordability beyond the required period. Units developed by individuals are required to be affordable for a shorter period of time and are much more likely to "go market" once the affordability period ends than are units sponsored by other types of owners. However, as the table shows, these individual units constitute a rather small share of all HOME units—11.2 percent.

How Developers Assess the HOME Program

One major intent of the HOME program was to provide funds for affordable housing that allowed for local program designs. At the same time, this devolution means a shift in responsibility for program efficiency, streamlining, and other program features that matter to affordable housing developers. We asked local developers how "satisfied" they were with their participation in the HOME program recognizing that their responses would refer to both Federal requirements and local program administration. We did not attempt to distinguish between these sources of satisfaction or dissatisfaction.

As Table 3.10 shows, the developers of most HOME rental units were quite satisfied with the program.[12] Overall, 45 percent of rental housing units were developed by those who said their experience was very positive. Only 9 percent of the rental units were developed by those who said their HOME experience was not very positive.

Table 3.10
Satisfaction with HOME Program By Developer Development Experience
(Percent of Units)

Development Experience	**Home Program Experience Was:** Not Very Positive	Somewhat Positive	Very Positive	Total
None	2 %	77.1 %	21.0 %	100 %
Somewhat	21.5	33.1	45.4	100
Very	2.3	39.4	58.3	100
Total	8.8 %	46.5 %	44.7 %	100 %

Source: Rental Property Developer and For-Sale Property Developer Surveys

We expected that more experienced developers might be more likely to register positive impressions of the program than those who were not very experienced. The latter might find their first encounter with a government financing program to be difficult, particularly if they did not have real estate as their full time business. This expectation was confirmed. Compared to the more experienced groups, rental developers with no prior experience less frequently rated their involvement in HOME as "very positive."

[12] We asked respondents whether their experience with the HOME program was "very positive," "somewhat positive, "not very positive," or "not at all positive." Because of the low percentage of units in the last two categories, we collapsed "not very positive" and "not at all positive" into a single category.

CHAPTER 4
THE LOCATION OF HOME-ASSISTED PROJECTS

Introduction and Summary of Findings

There is great interest in the location of HOME-assisted projects because neighborhood attributes are an important aspect of housing quality, and one of the main goals of the HOME program is to provide high quality housing to poor households. This belief gives rise to conflicting housing policy goals. On one hand, some argue that housing subsidies to build or redevelop properties in poor neighborhoods simply perpetuate unwelcome patterns of income segregation, and that poor residents would be better served by portable vouchers that would allow them to find housing in non-poor neighborhoods.[13] On the other hand, others argue that siting affordable housing projects and investing resources in poor neighborhoods serves developmental and community-building purposes.

This chapter examines the targeting policies of HOME programs and relates them to the poverty characteristics of the census tracts where HOME-funded projects are located. Responses from program managers suggest that only a modest amount of explicit targeting takes place, and that targeting is more likely to occur indirectly as funds are channeled to developers and organizations that tend to work in certain neighborhoods. Even in the absence of extensive targeting efforts, we found the locations of HOME projects to systematically vary by type of jurisdiction and project. In particular, projects in cities are more likely to be in high poverty areas than projects in consortia or in urban counties. Also, rental and developer for-sale projects are more likely to be in high poverty areas than individual homebuyer and owner-occupied rehabilitation projects.

Agency Locational Targeting Policies

Given the potential conflict between the desire to deconcentrate the poor and the desire to improve historically poor neighborhoods, we interviewed HOME program managers to learn how agencies influence project location. The results suggest that managers have not given emphasis to the spatial targeting of HOME resources, and we should therefore not interpret the results of the locational analysis appearing later in this chapter as being the result of explicit locational policies.

[13] HUD's Moving to Opportunity Demonstration requires such mobility and facilitates it by providing counseling to those who receive Section 8 housing vouchers.

Although a majority of senior program managers felt that they used HOME funds to revitalize neighborhoods, relatively few of them had explicit targeting policies. Specifically, we asked senior program managers if they used HOME funds as an aid to "revitalizing neighborhoods," for example, by thinking of housing investments as part of an overall effort to encourage residential and commercial investments in neighborhoods.[14] About half of the respondents (21 of 39 managers) felt that at least one of their HOME-funded programs was a neighborhood revitalization tool. Only seven of these managers, however, described explicit targeting policies that encourage or restrict investments only to certain places. Eight others noted that their policy of working with local nonprofits possessing city-approved neighborhood plans had, in effect, resulted in targeting. The six remaining managers did not offer further explanations.

Few senior managers had explicit locational policies with respect to deconcentrating disadvantaged populations. We asked senior program managers if they used HOME to promote deconcentration of low-income or minority households, for example, by siting projects in neighborhoods with few poor persons or minorities. Only four of 39 respondents said that they did: two of these were county officials able to select among a wide range of municipalities within the county; the other two managed projects in cities under court order to deconcentrate affordable housing. In an interesting twist, several managers responded that they did "just the opposite" with HOME funds: rather than help low-income people live in non-poverty areas, they used HOME funds to attract higher income persons to poor neighborhoods.

To explore this issue further, we also spoke with the operational managers of HOME-assisted rental and for-sale programs to determine whether these programs contained mechanisms to influence project locations. In particular, we asked officials to identify agency policies and other factors that might influence locations. Table 4.1 displays the results of interviews with 25 rental program officials and 13 developer for-sale program officials.

Overall, the operational managers responded much like their senior program managers. Table 4.1 shows that the most common factor influencing project location according to operational managers are project developers who work only in certain neighborhoods. Fourteen out of 25 rental program officials, and 9 of 12 for-sale program officials reported this as a factor. The distribution of the housing stock is also a fairly important factor (9 of 16 rental program officials, and 5 of 12 for-sale program officials), which means, for example, that rehabilitation projects are more likely to be found in poor, run-down neighborhoods than in well-off areas. Officials in very few jurisdictions restrict eligibility for project funding only to certain neighborhoods; however, some offer explicit program preferences to certain neighborhoods, such as bonus points or more generous subsidies.

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[14]Alternatively, officials could think of HOME investments primarily as a means for providing affordable housing, and remain indifferent to project location.

Table 4.1
Officials' Views of Factors Influencing Location of Rental and For-Sale Housing Projects
(N of Respondents)

	Rental Projects			For-Sale Projects		
	Yes	No	Total	Yes	No	Total
Agency Policies						
Avoid Low-Income Neighborhoods	1	23	24	1	12	13
Limit Eligibility to Certain Areas	2	23	25	4	9	13
Program Preferences to Certain Areas	8	17	25	1	12	13
More Agressive Marketing to Certain Areas	4	18	22	3	10	13
Other Factors						
Developers Only in Some Neighborhoods	14	11	25	9	3	12
Concentrations of Housing Stock	9	16	25	5	7	12

Source: Program Officials Survey

Tract Analysis Methodology

The remainder of this chapter examines how the location of HOME projects varies by project type, owner type, and jurisdiction. We use census tract poverty rates to characterize the location of projects. While the correlations are not perfect, indicators of many other neighborhood problems (e.g., unemployment, poor housing quality, social problems) are generally likely to be higher in tracts with higher poverty rates.[15] We group HOME projects according to three types of jurisdictions (i.e., cities, consortia, and urban counties) and three types of projects (i.e., rental, homebuyer, and owner-occupied rehab).[16] Ownership types include individual, corporation, partnership, nonprofit, and public.

Census tracts are the unit of geography for this analysis. In urban areas they are reasonable approximations of neighborhoods, both in terms of their size and homogeneity.[17] Census tracts are also rather stable over time, so that comparisons with 1980 and 1990 data are possible. In addition, census tract data are readily available and easy to use.

[15]Discussions of these relationships appear in Loic J. D Wacquant and William Julius Wilson, "The Cost of Racial and Class Exclusion in the Inner City" (in William Julius Wilson, ed., *The Ghetto Underclass: Social Science Perspectives*, Newbury Park, CA: Sage Publications, 1993) and, more recently, Paul A. Jargowsky, *Poverty and Place: Ghettos, Barrios, and the American City*, New York, NY: Russell Sage Foundation, 1997.

[16]We have no locational data for tenant-based assistance projects.

[17]Each tract usually has between 2,500 and 8,000 persons and, when first delineated, is designed to be homogeneous with respect to population characteristics and living conditions. Tract areas can vary widely depending on the population density.

Project Location by Main Project Characteristics

By examining the poverty characteristics of the census tracts where HOME-funded projects are located, we found the locations of HOME projects to systematically vary by type of jurisdiction and project.[18] Projects in cities are more likely to be in high poverty areas than projects in consortia or in urban counties. Also, rental and developer for-sale projects are more likely to be in high poverty areas than individual homebuyer and owner-occupied rehabilitation projects. In contrast, project location appears to be largely unrelated to the type of project owner. This finding is somewhat surprising as one might expect certain nonprofit groups to concentrate their activities in relatively poor areas.

Table 4.2
Average Poverty Rate of Census Tracts by Project, Jurisdiction, and Ownership Types

	Rental Projects		Homepurchase Projects				Owner-Occupied Rehab.	
	Average Poverty Rate	No. of Projects	Developer For-Sale Poverty Rate	Developer For-Sale Projects	Individual Buyer Poverty Rate	Individual Buyer Projects	Poverty Rate	Projects
Project Type								
Aquisition	15.0 %	476	17.2 %	636	18.6 %	17,225		
Moderate Rehab	27.2	2,546	24.1	1,345			N/A	N/A
Substantial Rehab	30.6	2,516	29.8	1,986			N/A	N/A
New Construction	18.7	818	32.1	3,107				
Jurisdiction Type								
Cities	31.2 %	4,636	30.6 %	4,967	20.8 %	13,078	28.0 %	14,611
Urban Counties	12.4	772	30.8	1,059	12.3	1,791	13.9	3,848
Consortia	15.3	948	17.1	1,047	11.3	2,356	12.8	4,066
Ownership Type								
Individual	29.3 %	1,786	29.3 %	3,614	18.6 %	17,225	22.8 %	22,525
Corporation	25.6	705	19.9	97				
Partnership	28.8	457	30.2	210				
Nonprofit	24.5	2,955	28.9	2,812				
Public	29.1	394	26.9	310				
TOTAL	26.6 %	6,356	28.6 %	7,074	18.6 %	17,225	22.8 %	22,525

Source: HUD CMIS, U.S. Census

Table 4.2 shows the average poverty rates of the tracts where rental, home purchase, and owner-occupied rehabilitation projects are located. Note that home purchase projects are divided into "developer for-sale" projects and "individual-homebuyer" projects. In developer for-sale projects, developers receive subsidies to construct units that are sold to eligible homebuyers (who may also receive subsidies). An individual-homebuyer project subsidizes the purchase of a property, usually through downpayment or closing cost assistance. This distinction is important because, in a developer for-sale project, a buyer is subject to a locational choice already made by the developer.

[18]We geocoded HUD's addresses to conduct the locational analysis. Please see the appendix for a description of address match rates.

In individual-homebuyer projects, the purchaser makes that choice. The bottom line of the table shows that individual-homebuyer projects are located in tracts with a lower average poverty rate (18.6 percent) than rental, developer for-sale, and owner-occupied rehabilitation projects (26.6 percent, 28.6 percent, and 22.8 percent, respectively). This suggests that many beneficiaries of individual-homebuyer projects may be purchasing homes in relatively well-off neighborhoods.

The top section of Table 4.2 shows that all types of acquisition projects (i.e., rental, developer for-sale, and individual-homebuyer acquisition projects) tend to be located in areas with lower poverty rates when compared to the other project types. Average poverty rates for acquisition projects range from 15 percent for rental projects to 18.6 percent for individual-homebuyer projects. Average poverty rates for other types of projects range from about 24 to 32 percent, with the exception of new construction rental projects for which the average poverty rate is 18.7 percent. This latter rate is substantially lower than the 32.1 percent rate for developer for-sale projects.

The location of HOME projects also varies by type of jurisdiction. The middle section of Table 4.2 shows that projects in cities tend to be located in tracts with higher poverty rates than projects in consortia and urban counties. For rental, individual homebuyer, and owner-occupied rehabilitation projects, the average poverty rate for project locations in cities is roughly double the corresponding value for the other two types of jurisdictions. This, of course, is not surprising in that the aggregate poverty rate in cities is substantially above that in urban counties or consortia areas. In the case of developer for-sale projects, however, urban counties were comparable to cities in that both placed their projects in tracts with about the same average poverty rates (31 percent).

Ownership type appears to be unrelated to project location. For several reasons, projects run by nonprofits might be expected to be located in tracts with higher poverty rates than other projects. Unlike for-profit developers, nonprofits usually define service or development areas consisting of low-income neighborhoods. Furthermore, many nonprofit developers argue that they are the only entities willing to undertake development in poor inner-city areas. However, rental projects in all five ownership categories (individual, corporation, partnership, nonprofit, and public) are in tracts with average poverty rates between 25 and 30 percent. Among developer for-sale projects, there is a small group of corporate-sponsored projects located in tracts with an average poverty rate of less than 20 percent; projects in the remaining ownership categories are in areas with average poverty rates above 26 percent.

While the above analysis demonstrates that the location of projects varies by several key factors, it relies on average poverty rates which, to some degree, mask the distributions of projects across well-off and poor tracts. In the following sections, we focus on the number of projects in census tracts with different poverty levels. To simplify the presentation, we look at rental, homebuyer, and owner-occupied rehabilitation projects separately.

Rental Projects

Another method of describing location, which provides more detail, involves grouping census tracts into different poverty level categories. In Table 4.3, we apply this approach to rental projects, which include acquired, moderately rehabilitated, substantially rehabilitated, and newly constructed housing designed to be operated as rental housing. We divide tracts into five groups according to their poverty rates in 1990—under 10 percent, 10 to 19 percent, 20 to 29 percent, 30 to 39 percent, and 40 percent or more. For each type of jurisdiction (i.e., cities, consortia, and urban counties) the table displays three distributions. The first distribution includes all census tracts in those jurisdictions that have any rental projects.[19] This first distribution gives us an idea of how many high poverty and low poverty neighborhoods exist in a jurisdiction. The second distribution describes the number of people under the poverty line that live in the jurisdictions that have rental projects. When combined with the census tract distribution, the poverty population distribution reveals the degree to which the poverty population is concentrated in high poverty tracts. Finally, the third distribution gives the distribution of rental projects by the poverty level of the tracts in which they are located.

Table 4.3 shows that cities have larger numbers of tracts with high poverty rates than urban counties or consortia. Thirteen percent of tracts in cities have poverty rates of 40 percent or higher, compared with only 6 percent of tracts in urban counties and 5 percent of tracts in consortia. More than half of the tracts in consortia and urban counties have poverty rates under 10 percent, while only 37 percent of tracts in cities have such low poverty rates. The pattern is the same when one looks at the population in poverty. Cities have a higher percentage of their poor (26 percent) living in high poverty tracts than do consortia (14 percent) and urban counties (17 percent).

Despite limited explicit targeting, the HOME program still has a low-income focus; therefore, we might expect to find relatively more HOME projects in high poverty tracts in cities than in the other two types of jurisdictions. While this is true, a larger proportion of city rental projects are found in high poverty tracts than might be expected from the overall distribution of census tracts. While 24 percent of census tracts in cities have poverty rates of 30 percent or higher, over half (52 percent) of all rental projects are located in these same tracts. For consortia and urban counties, the census tract and project distributions more closely resemble each other. In these jurisdictions projects are concentrated in low poverty tracks: 44 percent of consortia rental projects, and 54 percent of urban county rental projects are in tracts with poverty rates under 10 percent. In contrast, only 8 percent of city rental projects are in tracts with poverty rates under 10 percent, even though 37 percent of all census tracts in cities are in this category.

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[19]Note that this table *only* includes jurisdictions that have rental projects.

Table 4.3
Rental Project Commitments and Poverty Population
By Census Tract Poverty Status and Type of Participating Jurisdiction

Jurisdiction	Under 10%	10-19%	20-29%	30-39%	40+%	Total
Cities (N = 257)						
Census Tracts						
Number	4,719	3,109	1,947	1,395	1,712	12,882
Percent	36.6	24.1	15.1	10.8	13.3	100.0
Poverty Population						
Number (000)	1,036	1,857	1,820	1,610	2,253	8,576
Percent	12.1	21.7	21.2	18.8	26.3	100.0
Projects						
Number	381	774	1,065	1,166	1,250	4,636
Percent	8.2	16.7	23.0	25.2	27.0	100.0
Consortia (N = 72)						
Census Tracts						
Number	1,981	841	342	187	190	3,541
Percent	55.9	23.8	9.7	5.3	5.4	100.0
Poverty Population						
Number (000)	470	540	309	239	256	1,814
Percent	25.9	29.8	17.0	13.2	14.1	100.0
Projects						
Number	416	258	149	71	54	948
Percent	43.9	27.2	15.7	7.5	5.7	100.0
Urban Counties (N = 77)						
Census Tracts						
Number	1,839	754	403	222	213	3,431
Percent	53.6	22.0	11.7	6.5	6.2	100.0
Poverty Population						
Number (000)	404	493	418	311	338	1,964
Percent	20.6	25.1	21.3	15.8	17.2	100.0
Projects						
Number	418	202	95	30	27	772
Percent	54.1	26.2	12.3	3.9	3.5	100.0

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Note: Consortia projects are in 340 jurisdictions; Urban County projects in 433.
Census Tracts and Poverty Population are only for jurisdictions with projects, not all constituent jurisdictions of consortia or counties.

In addition to the type of jurisdiction, the location of rental projects varies by the type of project. Table 4.4 gives a breakdown of project types within cities, consortia, and urban counties.

Table 4.4
Rental Project Commitments
By Project Type and Type of Participating Jurisdiction

Jurisdiction	Number of Projects	Percentage
Cities (N = 257)		
Project Type		
Acquisition	211	4.6 %
Moderate Rehab.	1,944	41.9
Substantial Rehab.	2,075	44.8
New Construction	406	8.8
Total	4,636	100.0 %
Consortia (N = 72)		
Project Type		
Acquisition	121	12.8 %
Moderate Rehab.	376	39.7
Substantial Rehab.	248	26.2
New Construction	203	21.4
Total	948	100.0 %
Urban Counties (N = 77)		
Project Type		
Acquisition	144	18.7 %
Moderate Rehab.	226	29.3
Substantial Rehab.	193	25.0
New Construction	209	27.1
Total	772	100.0 %

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Note: Consortia projects are in 340 jurisdictions; Urban County projects in 433.
Census Tracts and Poverty Population are only for jurisdictions with projects, not all constituent jurisdictions of consortia or counties.

The vast majority of rental projects in cities (87 percent) are either moderate or substantial rehabilitation projects. Consortia and urban counties, however, have relatively fewer rehabilitation projects (66 and 54 percent, respectively), and more acquisition and new construction projects. Cities, of course, have comparatively more housing units in need of rehabilitation and less opportunity for new construction. To the extent that project managers are choosing projects that closely match the needs of their jurisdiction, the location of projects will depend on the characteristics of the existing housing stock in each jurisdiction.

If we now look at the locations of different project types within each jurisdiction (Table 4.5), we see that rehabilitation projects are more likely to be located in higher poverty tracts than acquisition or new construction projects. Most likely, this reflects the distribution of the housing stock in need of renovation. For cities, 29 percent of moderate and substantial rehabilitation projects are located in tracts with poverty rates over 40 percent, compared to only 11 percent of acquisition projects and 18 percent of new construction projects. In consortia, 7 percent of rehabilitation projects are in high poverty tracts, compared to about 3 percent each of acquisition and new construction projects. A similar pattern holds for urban counties, where 5 percent of rehabilitation, 1 percent of acquisition, and 2 percent of new construction projects are in tracts with poverty rates over 40 percent.

Table 4.5
Rental Project Commitments
By Census Tract Poverty Status, Project Type, and Type of Participating Jurisdiction

Jurisdiction	No. of Projects	Percentage of Projects — Census Tract Poverty Rate: Under 10%	10-19%	20-29%	30-39%	40+%	Total
Cities (N = 257)							
Project Type							
Acquisition	211	19.0	29.4	19.4	20.9	11.4	100.0
Mod. & Subst. Rehab.	4,019	6.6	15.5	23.8	25.4	28.7	100.0
New Construction	406	19.0	21.9	16.3	24.9	18.0	100.0
Consortia (N = 72)							
Project Type							
Acquisition	121	64.5	17.4	14.0	1.7	2.5	100.0
Mod. & Subst. Rehab.	624	35.6	29.8	17.8	9.8	7.1	100.0
New Construction	203	57.1	25.1	10.3	3.9	3.4	100.0
Urban Counties (N = 77)							
Project Type							
Acquisition	144	79.2	16.7	1.4	2.1	0.7	100.0
Mod. & Subst. Rehab.	419	41.5	33.2	16.0	4.1	5.3	100.0
New Construction	209	62.2	18.7	12.4	4.8	1.9	100.0

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Note: Consortia projects are in 340 jurisdictions; Urban County projects in 433. Census Tracts and Poverty Population are only for jurisdictions with projects, not all constituent jurisdictions of consortia or counties.

Table 4.5 also shows that the tendency for projects in cities to be located in higher poverty areas, and for projects in consortia and urban counties to be located in lower poverty areas, continues to hold even when taking into account the type of project. While only 19 percent of acquisition projects in cities are situated in tracts with poverty rates under 10 percent, 65 and 79 percent of acquisition projects in consortia and urban counties, respectively, are in such tracts. Furthermore, over half of the rehabilitation projects in consortia and urban counties are in tracts with under 20 percent poverty, but only 23 percent of city rehabilitation projects are found in these lower poverty tracts.

Homebuyer Projects

This section shows how individual homebuyer projects are more likely to be found in low poverty areas than developer for-sale projects, even when taking into account the type of jurisdiction. This partly represents the different locational choices of developers and individual households. Program manager interviews suggest that developers tend to work in certain neighborhoods. In cities and urban counties, developers appear to be most active in relatively poor areas. On the other hand, even given limits on what they can afford and the effects of discrimination and other market barriers, individual homebuyers have more freedom to choose to locations in a broader range of neighborhoods.

Homebuyer projects are concentrated in cities and comprise more individual homebuyer projects than developer for-sale projects. About three-quarters of all homebuyer projects are located in cities, 14 percent in consortia, and 12 percent in urban counties. Slightly more than two-thirds of homeownership projects funded through HOME are individual homebuyer projects. This proportion is fairly consistent across the different types of jurisdictions (73 percent for cities, 69 percent in consortia, and 63 percent in urban counties).

Table 4.6 shows that individual homebuyer projects tend to be in tracts with relatively low poverty rates, especially in consortia and urban counties. For cities, nearly three-fifths of individual homebuyer projects are in mid-range poverty tracts (i.e., those falling in the 10 to 29 percent poverty rate range), and an additional 20 percent are in tracts with poverty rates under 10 percent. In consortia and urban counties, individual homebuyer projects are even more likely to be located in low poverty tracts. More than half of the projects in both types of jurisdictions are located in tracts with less than 10 percent poverty. Overall, in each jurisdiction, the project distribution is not that different from the census tract distribution.

The locational pattern of developer for-sale projects is very different from that of individual homebuyer projects. As Table 4.7 shows, more than half of all developer projects in cities are located in tracts with at least 30 percent poverty, even though only a quarter of city tracts are in similar areas. In urban counties the largest proportion (35 percent) of developer projects are in tracts with poverty rates of 40 percent or higher, about five times the share of all census tracts in this category. Finally, in consortia, the majority of developer projects are located in tracts with poverty rates under 20 percent, and the distribution of projects is roughly the same as the distribution of census tracts overall.

Table 4.6
Individual Homebuyer Acquisition Commitments and Poverty Population By Census Tract Poverty Status and Type of Participating Jurisdiction

Jurisdiction	Census Tract Poverty Rate					
	Under 10%	10-19%	20-29%	30-39%	40+%	Total
Cities (N = 142)						
Census Tracts						
Number	3,002	2,205	1,492	1,075	1,268	9,042
Percent	33.2	24.4	16.5	11.9	14.0	100.0
Poverty Population						
Number (000)	689	1,380	1,479	1,325	1,763	6,636
Percent	10.4	20.8	22.3	20.0	26.6	100.0
Projects						
Number	2,641	4,608	3,085	1,528	1,216	13,078
Percent	20.2	35.2	23.6	11.7	9.3	100.0
Consortia (N = 48)						
Census Tracts						
Number	1,043	596	282	170	144	2,235
Percent	46.7	26.7	12.6	7.6	6.4	100.0
Poverty Population						
Number (000)	285	373	249	196	170	1,273
Percent	22.4	29.3	19.6	15.4	13.4	100.0
Projects						
Number	1,321	733	168	111	23	2,356
Percent	56.1	31.1	7.1	4.7	1.0	100.0
Urban Counties (N = 38)						
Census Tracts						
Number	1,480	682	383	266	224	3,035
Percent	48.8	22.5	12.6	8.8	7.4	100.0
Poverty Population						
Number (000)	366	510	462	412	374	2,124
Percent	17.2	24.0	21.8	19.4	17.6	100.0
Projects						
Number	970	506	193	73	49	1,791
Percent	54.2	28.3	10.8	4.1	2.7	100.0

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Note: Consortia projects are in 277 jurisdictions; Urban County projects in 383.
Census Tracts and Poverty Population are only for jurisdictions with projects, not all constituent jurisdictions of consortia or counties.

Table 4.7
Developer For Sale Acquisition Commitments and Poverty Population
By Census Tract Poverty Status and Type of Participating Jurisdiction

Jurisdiction	**Census Tract Poverty Rate** Under 10%	10-19%	20-29%	30-39%	40+%	Total
Cities (N = 230)						
Census Tracts						
Number	5,345	3,708	2,351	1,714	2,168	15,286
Percent	35.0	24.3	15.4	11.2	14.2	100.0
Poverty Population						
Number (000)	1,003	1,946	2,004	1,878	2,819	9,650
Percent	10.4	20.2	20.8	19.5	29.2	100.0
Projects						
Number	461	875	1,075	1,246	1,310	4,967
Percent	9.3	17.6	21.6	25.1	26.4	100.0
Consortia (N = 48)						
Census Tracts						
Number	817	485	307	216	237	2,062
Percent	39.6	23.5	14.9	10.5	11.5	100.0
Poverty Population						
Number (000)	168	295	300	276	343	1,382
Percent	12.2	21.3	21.7	20.0	24.8	100.0
Projects						
Number	407	298	133	144	65	1,047
Percent	38.9	28.5	12.7	13.8	6.2	100.0
Urban Counties (N = 38)						
Census Tracts						
Number	1,480	682	383	266	224	3,035
Percent	48.8	22.5	12.6	8.8	7.4	100.0
Poverty Population						
Number (000)	366	510	462	412	374	2,124
Percent	17.2	24.0	21.8	19.4	17.6	100.0
Projects						
Number	268	148	133	138	372	1,059
Percent	25.3	14.0	12.6	13.0	35.1	100.0

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Note: Consortia projects are in 207 jurisdictions; Urban County projects in 240.
Census Tracts and Poverty Population are only for jurisdictions with projects, not all constituent jurisdictions of consortia or counties.

The differences between the location of individual and developer homebuyer projects is shown more clearly in Table 4.8, which brings together the project distributions from the prior two tables. Overall, individual projects are less likely to be located in high poverty tracts than developer projects. Twenty-five percent of all developer projects are located in tracts with poverty rates over

40 percent, as compared with only 8 percent of individual homebuyer projects. More than 60 percent of individual projects are in tracts with poverty rates less than 20 percent poverty, while only 35 percent of developer projects are in such tracts.

Table 4.8
Individual Homebuyer and Developer for Sale Acquisition Commitments
By Census Tract Poverty Status and Type of Participating Jurisdiction

Jurisdiction	Census Tract Poverty Rate: Under 10%	10-19%	20-29%	30-39%	40+%	Total
Cities (N = 218)						
Project Type						
Individual	20.2	35.2	23.6	11.7	9.3	100.0 %
Developer	9.3	17.6	21.6	25.1	26.4	100.0 %
Consortia (N = 64)						
Project Type						
Individual	56.1	31.1	7.1	4.7	1.0	100.0 %
Developer	38.9	28.5	12.7	13.8	6.2	100.0 %
Urban Counties (N = 72)						
Project Type						
Individual	54.2	28.3	10.8	4.1	2.7	100.0 %
Developer	25.3	14.0	12.6	13.0	35.1	100.0 %
All Jurisdictions (N = 354)						
Project Type						
Individual	28.6	33.9	20.0	9.9	7.5	100.0 %
Developer	16.1	18.7	19.0	21.6	24.7	100.0 %

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Note: Consortia projects are in 505 jurisdictions; Urban County projects in 731.
Census Tracts and Poverty Population are only for jurisdictions with projects, not all constituent jurisdictions of consortia or counties.

Owner-Occupied Rehabilitation Projects

This section examines the locations of owner-occupied rehabilitation projects. These are projects where assistance is given to homeowners to renovate existing properties. Generally, project selection is governed by the homeowners who apply to the program. Therefore, one would expect that the location of projects to be strongly influenced by the quality of the housing stock in the jurisdiction.

Table 4.9
Owner-Occupied Rehab Project Commitments and Poverty Population
By Census Tract Poverty Status and Type of Participating Jurisdiction

Jurisdiction	Census Tract Poverty Rate					
	Under 10%	10-19%	20-29%	30-39%	40+%	Total
Cities (N = 218)						
Census Tracts						
Number	4,426	3,002	2,001	1,473	1,859	12,761
Percent	34.7	23.5	15.7	11.5	14.6	100.0 %
Poverty Population						
Number (000)	957	1,800	1,901	1,753	2,467	8,878
Percent	10.8	20.3	21.4	19.7	27.8	100.0 %
Projects						
Number	1,681	3,441	3,250	2,882	3,357	14,611
Percent	11.5	23.6	22.2	19.7	23.0	100.0 %
Consortia (N = 64)						
Census Tracts						
Number	1,782	785	338	193	254	3,352
Percent	53.2	23.4	10.1	5.8	7.6	100.0 %
Poverty Population						
Number (000)	399	451	272	231	295	1,648
Percent	24.2	27.4	16.5	14.0	17.9	100.0 %
Projects						
Number	2,126	1,202	313	307	118	4,066
Percent	52.3	29.6	7.7	7.6	2.9	100.0 %
Urban Counties (N = 72)						
Census Tracts						
Number	2,492	1,048	539	305	366	4,750
Percent	52.5	22.1	11.3	6.4	7.7	100.0 %
Poverty Population						
Number (000)	556	682	574	434	606	2,852
Percent	19.5	23.9	20.1	15.2	21.2	100.0 %
Projects						
Number	2,004	1,061	385	165	233	3,848
Percent	52.1	27.6	10.0	4.3	6.1	100.0 %

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Note: Consortia projects are in 505 jurisdictions; Urban County projects in 731.
Census Tracts and Poverty Population are only for jurisdictions with projects, not all constituent jurisdictions of consortia or counties.

Table 4.9 shows that cities have a higher proportion of projects in tracts with at least 30 percent poverty (43 percent) than do consortia (11 percent) and urban counties (10 percent). In cities, the distribution of projects follows the distribution of persons in poverty. Even though it is reasonable to expect the location of projects to match the distribution of poor persons in a jurisdiction, we see that for consortia and urban counties this is not the case. While the poverty population in these jurisdictions is spread roughly even across the poverty categories, the projects are concentrated in low poverty areas. Over half of the projects in these jurisdictions are in tracts with poverty rates of under 10 percent; about four-fifths of all projects are in tracts with poverty rates of under 20 percent. It is not clear to what extent this might reflect program priorities, quality differences, differences in homeownership rates, or the possibility that these homeowners feel they have more to gain by investing in their homes compared to homeowners in cities.

Poverty Rate Change in Project Tracts

The previous analyses looked at the location of projects in terms of static poverty rates, that is, poverty rates as of the 1990 Census. We now examine the changes in poverty in areas where HOME projects are found. In Table 4.10, each census tract has been categorized as having "decreasing," "stable," or "increasing" poverty according to changes in the poverty rate occurring from 1980 to 1990. If the poverty rate decreased by five percent or more from 1980 to 1990, then the tract was classified as having decreasing poverty. If the poverty rate increased by five percent or more, the tract was classified as having increasing poverty. Otherwise, the tract was classified as stable.

Table 4.10 shows that more than half of the HOME projects are in tracts that experienced increasing poverty rates in the 1980s. About 51 percent of rental projects are in tracts with increasing poverty, compared to 52 percent of developer for-sale projects, 58 percent of owner-occupied rehabilitation projects, and 60 percent of individual homebuyer projects.

These findings need to be interpreted with caution, however. A sizeable share of all neighborhoods in cities and inner-ring suburbs registered increasing poverty rates in that decade. An increase in the poverty rate by 5 percent or more alone is not enough to imply that a tract's housing market viability is seriously threatened. Analysis of many other factors would be required to make that determination.

The next largest groups of projects are in areas that have been stable with respect to poverty; that is, areas that had a less than five percent increase or decrease in poverty rates from 1980 to 1990. The percentage of projects in stable tracts ranged from 30 percent for individual homebuyer projects to 37 percent for developer for-sale projects. Only 8 to 14 percent of projects were located in tracts where poverty rates decreased between decennial censuses. The smallest share (8 percent) is for owner-occupied rehabilitation projects. The comparable figures for Individual homebuyer and developer for-sale projects are 10 percent and 11 percent, respectively. Rental projects are the most likely to be found in neighborhoods with decreasing poverty (14 percent).

Table 4.10
Project Commitments
By Census Tract Poverty Status and Poverty Stability

	Percent of Projects by Census Tract Poverty Rate						No. of
	Under 10%	10-19%	20-29%	30-39%	40+%	Total	Projects
Rental							
Decreasing Poverty	41.2	15.0	12.6	3.1	2.0	14.4	541
Stable Poverty	28.7	35.1	32.1	43.5	33.9	34.7	1,658
Increasing Poverty	30.2	50.0	55.3	53.4	64.0	50.9	2,432
Total	100.0	100.0	100.0	100.0	100.0	100.0	4,631
Individual Homebuyer							
Decreasing Poverty	32.2	8.4	2.8	1.0	1.1	10.3	1,352
Stable Poverty	33.8	30.5	25.4	31.3	29.9	30.0	3,921
Increasing Poverty	34.0	61.1	71.8	67.7	69.0	59.7	7,801
Total	100.0	100.0	100.0	100.0	100.0	100.0	13,074
Developer for Sale							
Decreasing Poverty	35.7	21.8	13.4	2.5	0.4	10.8	535
Stable Poverty	34.3	29.5	31.3	40.6	45.3	37.3	1,850
Increasing Poverty	30.0	48.7	55.3	56.9	54.4	51.9	2,578
Total	100.0	100.0	100.0	100.0	100.0	100.0	4,963
Owner-Occupied Rehab.							
Decreasing Poverty	27.9	10.7	7.1	1.1	0.1	7.6	1,104
Stable Poverty	38.3	40.6	29.8	35.1	30.6	34.6	5,048
Increasing Poverty	33.8	48.8	63.0	63.8	69.2	57.9	8,457
Total	100.0	100.0	100.0	100.0	100.0	100.0	14,609

Source: HUD C/MIS, U.S. Census
Note: Includes 126 cities that have both rental and individual homebuyer projects.
Census tract poverty rates for 1990. Poverty stability defined from 1980 to 1990.

Comparison with Public Housing Projects

Comparing data on the spatial pattern of HOME investments with previously published information on that for public housing,[20] evidences marked locational contrasts between these programs. Table 4.11 shows the distribution of HOME rental units and public housing units according to the racial and ethnic characteristics of the households occupying them, and the poverty classification of the tracts in which the projects are situated. Overall, HOME rental units are more likely to be located in tracts with lower poverty rates than public housing units. Only 8 percent of all public housing units are located in tracts with poverty rates below 10 percent, whereas 22 percent of HOME rental units are in such tracts. Furthermore, 42 percent of public housing units are in tracts with poverty rates of 40 percent or more, compared to only 22 percent of HOME units.

[20]John Goering, Ali Kamely and Todd Richardson, The Location and Racial Composition of Public Housing in the United States (HUD, Office of Policy Development and Research, December 1994).

Table 4.11
Race and Ethnicity of HOME Rental and Public Housing Authority Project Residents
By Census Tract Poverty Rate

	Resident Race/Ethnicity							
	Percent HOME Rental Units				Percent Public Housing Units			
	White	Black	Hispanic	Total	White	Black	Hispanic	Total
Tract Poverty Rate								
Below 10%	34 %	15	15	22	19	4	10	8
10-19%	20	18	19	19	30	12	17	15
20-29%	20	18	17	19	21	15	23	18
30-39%	12	20	28	18	17	18	20	17
40+%	14	29	21	22	13	51	30	42
Total	100	100	100	100	100	100	100	100

Source: HUD C/MIS, Goering et al (1994)

In public housing, white households are more likely than black or Hispanic households to be in low poverty tracts, and black households are more likely than other households to occupy tracts with poverty rates of 40 percent or more. This overall pattern persists in the HOME program; however, in HOME rental projects, the white, black, and Hispanic shares of households in low poverty tracts each exceed their public housing counterparts.

CHAPTER 5
THE INCOME, RACE AND ETHNICITY OF HOME PROGRAM BENEFICIARIES

Introduction and Summary of Findings

Policymakers are extremely interested in who does or does not benefit from HOME-funded activities, and whether the program is producing any unintended consequences with respect to economic or racial concentration. The program is subject to income targeting requirements that vary by project type, and must meet applicable provisions of title VI of the Civil Rights Act of 1964, and the Fair Housing Act. Newly constructed rental housing must meet site and neighborhood standards that, among other things, ensures that federally financed projects do not reinforce the effects of prior discrimination.

The following analysis of beneficiary characteristics is largely descriptive. It examines how the income, race, and ethnicity of HOME beneficiaries varies by project type, jurisdiction, and location. While it explores the degree to which the HOME program has income mixing and desegregation effects, this analysis should not be viewed as an evaluation of those effects in relation to any fixed expectations, but rather as a description of racial and economic patterns that emerged during the period under study. It is important to recognize that the HOME program was created before HUD had clearly articulated its policies relative to deconcentrating the poor, and that the period covered here was one in which HUD's site and neighborhood standards were still in the process of being formulated.

While it would be interesting to analyze whether the HOME program has the potential to be a useful tool for implementing HUD's current policies, this task is made difficult by the presence of conflicting goals. The last chapter noted how the desire to empower people by expanding their choices can conflict with the goal of reinvesting in communities. This chapter goes on to show how the desire to assist the neediest can be at odds with the objective of deconcentrating the poor. In particular, while program operators must ensure a minimum level of participation by low-income households, a high level of participation by poor households may result in a higher concentration of the poor in some projects. Even the desire to support community-based activities through CHDO setasides has a flip side: to the degree that CHDOs tend to work in certain poor neighborhoods, beneficiaries may continue to be concentrated in those areas. Given these conflicting goals, we cannot definitively conclude which aspects of the HOME program support HUD policies. Nevertheless, by identifying program characteristics associated with various economic and racial outcomes, we are generating information that HUD can use to modify the HOME program to best achieve its evolving policy goals.

We found a fairly strong link between beneficiary characteristics and project type, which is not surprising given that certain kinds of projects are known to serve certain kinds of clients and have different statutory requirements regarding income limits and affordability. For example, the elderly have historically participated in owner-occupied rehabilitation projects at high rates. Also, recipients of homebuyer assistance (who, among other things, usually must qualify for loans) are expected to have the highest incomes among HOME beneficiaries. In contrast, rental projects and tenant-based assistance projects, by statute, have tougher income limits, and are expected to benefit poorer households. Our analysis confirmed the presence of these patterns in the HOME program.

We also found that program officials can promote poverty deconcentration or racial desegregation by favoring certain project types. When given a choice through individual-buyer projects, households tend to buy homes in the best neighborhoods that they can afford. In this way, individual-buyer projects can promote economic and racial/ethnic deconcentration. On the other hand, developer for-sale projects tend to be located in poorer and more heavily minority neighborhoods. The economic and racial impact of several other types of projects are unclear.

Special care must be taken in viewing national figures concerning race and ethnicity, which are easily influenced by high levels of project activity in certain participating jurisdictions. The HOME-assisted population in local participating jurisdictions is approximately 38 percent white, 41 percent black, 18 percent HIspanic, and 3 percent "other." Compared to this distribution, blacks receive a disproportionate share of rental project and tenant-based assistance (47 percent and 45 percent, respectively), Hispanic households receive a disproportionate share of homebuyer assistance (32 percent) and white households receive a disproportionate share of owner-occupied rehabilitation asistance (50 percent).

The remainder of this chapter contains three sections. The first section describes the income levels of HOME project beneficiaries in local participating jurisdictions, and examines whether incomes are linked to characteristics of projects, neighborhoods, or jurisdictions. The second section discusses how race and ethnicity vary across projects, neighborhoods, and jurisdictions. Both of the first two sections begin with an overview which is followed by a more detailed analysis of each project type. The third and final section of this chapter reports on the benefits received by the occupants of HOME-assisted housing, including improved affordability, better unit quality, and better neighborhoods.

Data for most of this analysis comes from HUD's Cash/Management Information System (C/MIS), which contains information on the income, race, ethnicity, and other characteristics of HOME project occupants. As noted in the preceding chapter, the Urban Institute linked the C/MIS project address data to census tracts, which facilitates comparisons of beneficiary attributes and neighborhood characteristics. Data on resident benefits presented in the final section of this chapter are from a telephone survey of a random sample of beneficiary households.

Incomes of HOME Project Residents

HOME program operators appear to be meeting the statutory income targeting requirements. All HOME project residents must have incomes below eighty percent of the median income for the metropolitan area in which the housing is located, adjusted for family size. In addition, ninety percent of rental project residents must have incomes less than sixty percent of the median income, and in multifamily rental projects (those with five units or more), twenty percent of units must be occupied by families earning less than fifty percent of the median.[21] Table 5.1 shows the income distribution of beneficiaries by project type and race/ethnicity. The table indicates that HOME projects generally exceed the legal requirements for serving low-income households by a substantial margin. The bottom panel shows that many HOME-assisted residents have incomes below the program's income caps: 87 percent of rental project residents and 96 percent of residents receiving tenant-based rental assistance have incomes below 50 percent of median income, far exceeding the statutorily mandated 20 percent. Although the program allows homeowner incomes of up to 80 percent of the median, 33 percent of homebuyers and 70 percent of owner-occupied rehabilitation project residents have incomes below 50 percent of the median.

HOME-assisted homebuyers have higher incomes than residents of HOME-assisted rental housing: 50 percent of rental project residents and 82 percent of residents receiving tenant-based rental assistance have incomes below 30 percent of median, compared to 8 percent of homebuyers, which largely reflects the higher incomes required to meet the financial tests of lenders. Beneficiaries of owner-occupied rehabilitation projects have sharply lower incomes than homebuyers partly because of the presence of a substantial number of owners with low current incomes, such as elderly on fixed retirement incomes, who desire to fix up their units. Overall, about 29 percent of the beneficiaries of owner-occupied rehabilitation project have incomes below 30 percent of median, compared to only 8 percent of homebuyers. The upper panels of Table 5.1 show that the overall pattern just described is equally applicable to all race and ethnic groups.

Table 5.2 confirms that the elderly make up over two-fifths of the recipients of owner-occupied rehabilitation assistance, and that their incomes are somewhat lower than their non-elderly counterparts. Slightly more than a third of the elderly owner-occupied rehabilitation project beneficiaries have incomes below 30 percent of median compared to less than a quarter of non-elderly owner-occupied rehabilitation project beneficiaries. Almost two-thirds of all elderly home beneficiaries participate in owner-occupied rehabilitation projects. Not surprisingly, very few elderly households participate in homebuyer projects—but those who do tend to have lower incomes than their non-elderly counterparts.

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[21]See CFR24, 92.216 and 92.217. The original HOME rules applied the 20-percent very-low-income rule to projects with three units or more.

Table 5.2
Income Distribution of HOME Beneficiaries by Project Type and Elderly Status
(Number of Units)

Resident Income as Percent of Area Median	Rental Number	Rental Pct	Homebuyer Number	Homebuyer Pct	Owner-Occupied Rehab Number	Owner-Occupied Rehab Pct	Tenant-Based Rental Asst. Number	Tenant-Based Rental Asst. Pct	Total Number	Total Pct
Elderly										
Below 30%	1,023	53	102	24	2,403	35	902	71	4,430	42
30-49	690	36	153	36	2,974	44	325	26	4,142	40
50-59	186	10	62	14	763	11	27	2	1,038	10
60-80	38	2	111	26	696	10	9	1	854	8
Total	1,937	100	428	100	6,836	100	[illegible]	100	10,464	100
Non-elderly										
Below 30%	6,624	[illegible]	1,154	8	2,288	24	9,793	83	19,858	40
30-49	4,978	37	3,827	25	3,693	39	1,544	13	14,042	[illegible]
50-59	1,333	10	3,211	21	1,368	15	309	3	6,221	13
60-80	456	3	6,990	46	2,070	22	91	1	9,607	19
Total	13,391	100	15,182	100	9,419	100	11,736	100	[illegible]	100
Total										
Below 30%	7,647	50	1,256	8	4,691	29	10,694	82	24,288	40
30-49	5,668	37	3,980	25	6,667	41	1,869	14	18,184	30
50-59	1,519	10	3,273	21	2,131	13	336	3	7,259	12
60-80	494	3	7,101	45	2,766	17	100	1	10,461	17
Total	15,328	100	15,610	100	16,255	100	12,999	100	60,192	100

Source: Compiled by the Urban Institute based on HOME C/MIS data.
Includes completions as of 9-30-97. Elderly is defined as 62 years and older.

Table 5.1
Income Distribution of HOME Beneficiaries by Project Type and Race/Ethnicity of Head of Household
(Number of Units)

Resident Income as Percent of Area Median	Rental Number	Rental Pct	Homebuyer Number	Homebuyer Pct	Owner-Occupied Rehabilitation Number	Owner-Occupied Rehabilitation Pct	Tenant-Based Rental Assistance Number	Tenant-Based Rental Assistance Pct	Total Number	Total Pct
White, non-Hispanic										
Below 30%	2,4[illegible]8	48	244	5	2,056	25	3,884	78	8,592	37
30-49	1,9[illegible]8	38	937	19	3,491	43	939	19	7,285	32
50-59	4[illegible]7	10	988	20	1,169	14	100	2	2,744	12
60-80	184	4	2,689	55	1,487	18	45	1	4,405	19
Total	4,997	100	4,858	100	8,203	100	4,968	100	23,026	100
Black, non-Hispanic										
Below 30%	3,668	51	458	9	2,110	33	5,040	87	11,276	46
30-49	2,551	36	1,56[illegible]	30	2,502	40	629	11	7,245	30
50-59	7[illegible]0	10	1,170	22	724	11	131	2	2,755	11
60-80	195	3	2,087	40	983	16	10	0	3,275	13
Total	[illegible]	100	5,278	100	6,319	100	5,810	100	24,551	100
Hispanic										
Below 30%	1,243	48	497	10	473	31	1,311	79	3,524	33
30-49	999	39	1,385	28	593	39	205	12	3,182	30
50-59	253	10	1,023	21	199	13	99	6	1,574	15
60-80	92	4	2,084	42	252	17	41	2	2,469	23
Total	2,587	100	4,989	100	1,517	100	1,656	100	10,749	100
Other										
Below 30%	328	55	57	12	52	24	459	81	896	48
30-49	200	33	95	20	81	38	96	17	472	25
50-59	49	8	92	19	39	18	6	1	186	10
60-80	23	4	241	50	44	20	4	1	312	17
Total	600	100	485	100	216	100	565	100	1,866	100
Total										
Below 30%	7,647	50	1,256	8	4,691	29	10,694	82	24,288	40
30-49	5,668	37	3,980	25	6,667	41	1,869	14	18,184	30
50-59	1,519	10	3,273	21	2,131	13	336	3	7,259	12
60-80	494	3	7,101	45	2,766	17	100	1	10,461	17
Total	15,328	100	15,610	100	16,255	100	12,999	100	60,192	100

Source: Compiled by the Urban Institute based on HOME C/MIS data.
Notes: Includes all project completions as of 9-30-96, except for tenant-based assistance which includes all project set-ups.

Rental Projects[22]

We noted above how about half of rental project residents have incomes below 30 percent of the area median, and roughly 87 percent have incomes less than 50 percent of the area median. The law only requires that 20 percent of rental project occupants have incomes at or below 50 percent of the area median. Only tenant-based assistance projects serve a poorer clientele. One reason why HOME rental projects have been able to serve households at very-low income levels is because so many households receive tenant-based rental assistance. More than one-half (52 percent) of households with incomes at or below 30 percent of median income receive tenant-based rental assistance, funded from HOME or other sources. (Not shown on table.)

The top panel of Table 5.3 shows that public and nonprofit owners are not more likely to serve persons of lower income than profit-motivated owners. The share of households with incomes below 30 percent in projects sponsored by public agencies or nonprofits (62.7 percent and 52.6 percent, respectively) is not very different than the shares for projects owned by individuals (55.9 percent), corporations (46.7 percent), or partnerships (60.5 percent).[23] The lack of a major difference is consistent with findings in the last chapter, which showed that the average poverty rates for census tracts where public agencies and nonprofits sponsored projects were not significantly different from those of other project owners.

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[22]Some of the figures in this section may not perfectly match previous tables because this analysis only includes completed projects that are at least partially occupied, and were successfully geocoded. The subset of projects includes 2,496 out of a total of 6,418 projects committed. It is slightly biased towards acquisition-only projects and moderate rehabilitation projects.

[23]The one percent of projects owned by entities classified as "other" are omitted from the table.

About three quarters of rental project beneficiaries are located in cities, and these beneficiaries tend to be somewhat poorer than those in counties or consortia. The middle panel of

Table 5.3
Incomes of Rental Project Residents by Project Ownership Type, Jurisdiction Type and Tract Percent Poverty

	Resident Income as Percent of Area Median					Percent Below	
	30 or Below	30-50	50-60	60-80	Total	30%	50%
Ownership Type							
Individual	1,150	629	178	99	2,056	55.9 %	86.5 %
Corporation	1,401	1,138	396	65	3,000	46.7	84.6
Partnership	724	334	107	32	1,197	60.5	88.4
Nonprofit	2,317	1,585	348	153	4,403	52.6	88.6
Public	418	170	44	35	667	62.7	88.2
Jurisdiction Type							
City	4,744	2,726	686	289	8,445	56.2 %	88.5 %
Consortium	578	493	185	66	1,322	43.7	81.0
County	773	672	207	31	1,683	45.9	85.9
Tract Percent Poverty							
Below 10	1,076	1,058	289	78	2,501	43.0 %	85.3 %
10-19	1,124	727	205	91	2,147	52.4	86.2
20-29	1,125	703	216	93	2,137	52.6	85.5
30-39	1,175	673	186	51	2,085	56.4	88.6
40+	1,578	715	181	71	2,545	62.0	90.1
Total Units	6,095	3,891	1,078	386	11,450	53.2 %	87.2 %
Percent of Units	53.2 %	34.0 %	9.4 %	3.4 %	100.0 %		

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Table 5.3 shows that the share of households with incomes below 30 percent of the area median in cities (56.2 percent) is higher than that of urban counties (45.9 percent) or consortia (43.7 percent).[24] The bottom panel of Table 5.3 shows that the share of households with incomes below 30 percent of the area median rises as census tract poverty rates increase. This share ranges from 43 percent for units in low-poverty tracts (tracts in which less than 10 percent of households are in poverty), to 62 percent for units in extreme-poverty tracts (40 percent of households or more in poverty).

Many observers of low-income housing policy have pointed to the potential value of housing assistance in promoting the mix of incomes in neighborhoods. Research has suggested that low-income families fare better in terms of children's school performance, adult employment rates, and

[24]Local participating jurisdictions comprise cities, counties, and consortia. Consortia are made up of smaller jurisdictions which join together to qualify and apply for HOME funds.

earnings if they reside in neighborhoods where moderate- and upper-income persons live, instead of where everyone is poor. Observers have noted the social ills associated with public housing projects containing dense concentrations of very poor households.

We can use the figures appearing in the first column of the bottom panel in Table 5.3 to show the degree to which the poorest beneficiaries reside in better-off neighborhoods (i.e., how "deconcentrated" they are). The first column of Table 5.3 shows that 6,095 total units are occupied by households with incomes below 30 percent of the area median income. Thirty percent of median income roughly corresponds to the national poverty level. Of these 6,095 units, about 18 percent (1,076 units) are in census tracts with poverty rates below 10 percent, and roughly 36 percent (2,200 units) are located in tracts with poverty rates of less than 20 percent. About 26 percent of the units are in extremely poor tracts, that is, tracts where 40 percent or more of the population lives in poverty.

If we compare these numbers to roughly comparable figures for residents of public housing and those receiving Section 8 rental assistance, we can see that the HOME rental program beneficiaries are less concentrated in high poverty areas than are public housing residents, but more concentrated than are recipients of Section 8 certificates and vouchers.[25] Just 7 percent of public housing households in poverty reside in tracts with poverty rates below 10 percent, compared with 18 percent of HOME rental program beneficiaries, 25 percent of Section 8 project-based certificate holders, and 27 percent of Section 8 free-standing certificate and voucher recipients. At the other extreme, about 42 percent of public housing residents are in tracts with a poverty rate of 40 percent or higher, compared with 26 percent of HOME rental project residents, 16 percent of Section 8 project-based certificate holders, and 8 percent of free-standing certificate and voucher holders.

Another measure of deconcentration is the mix of incomes in projects: we find that about 43 percent of rental projects with two or more units contain a mixture of households with incomes below 30 percent of the area median and households with higher incomes. Table 5.4 shows the share of households in a project with incomes below 30 percent of the area median for projects of various sizes. When this share is 100 percent, it means there is no one from a higher income group in the project, i.e., there is no mixing. No income mixing occurs in about one-third of rental projects with two or more units. When the share equals zero percent, it means no mixing is taking place between households with incomes below 30 percent of the area median and households in higher income groups simply because there are no households in the poorest income category. Note that this does not mean there is no mixing occurring among higher income groups. Our measure is strictly a measure of mixing taking place with households in the lowest income category.

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[25]Office of Policy Development and Research, *A Picture of Subsidized Housing in 1996*, World Wide Web Site <www.huduser.org/data/asthse/statedata/index.htm> accessed May 18, 1998.

Smaller projects are less likely than larger projects to feature some sort of income mix. Table 5.4 shows that about two-thirds of multifamily projects (those with five or more units) contain a mix of incomes. Put another way, a combined 34 percent of projects have either 0% or 100% of households with incomes below 30% of median. The share of projects with mixed incomes falls to 38 percent for three-to-four unit projects, and 18 percent for two-unit projects. In about 36 percent

Table 5.4
Distribution of HOME Rental Projects by Household Income and Project Size
(Number of Projects)

Percentage of Households in Project with Income Below 30 Percent of Area Median	2 units		3 or 4 units		5 or more units		Total	
	Number	Pct	Number	Pct	Number	Pct	Number	Pct
0 %	136	36 %	60	24 %	71	13 %	267	23 %
1 to 10	0	0	0	0	15	3	15	1
11 to 25	0	0	11	4	51	10	62	5
26 to 50	69	18	53	21	111	21	233	20
51 to 75	0	0	32	13	80	15	112	10
76 to 90	0	0	0	0	62	12	62	5
91 to 99	0	0	0	0	24	5	24	2
100	169	45	99	39	112	21	380	33
Total	374	100	255	100	526	100	1,155	100

Source: Compiled by the Urban Institute based on HOME C/MIS data.
Includes only project completions as of 9-30-96.

of multifamily projects (i.e., over half of all mixed multifamily projects), the share of households falling in the poorest income category ranges from 26 to 75 percent. This suggests that mixing is not simply the result of the presence of a single higher income household.

Income of Homeownership Project Occupants

This section provides a striking picture of the different impact each of the homeowner programs has on the behavior of beneficiaries. When given a choice through individual-buyer projects, households tend to buy homes in the best neighborhoods that are available within their means. In this way, individual-buyer programs have promoted deconcentration. Households with moderate incomes can be induced to purchase homes in poor areas, but this is most likely to occur if their choices are constrained to these areas, as they often are in developer for-sale projects. While it is true that developer for-sale projects have encouraged investment in poor neighborhoods, we saw in Chapter 4 that this is more the result of developers' decisions than the result of explicit policies of program managers.[26]

Earlier, we noted how the incomes of homeowner project beneficiaries are higher, on average, than those of other HOME beneficiaries largely because homeowner beneficiaries must have incomes sufficient to qualify for financing. The bottom panel of Table 5.5, however, shows how the incomes of homebuyers in cities are considerably lower than the incomes of homebuyers in consortia or counties. Nearly 40 percent of city homebuyers have incomes below 50 percent of the area median, compared to 19.1 percent of homebuyers in consortia and 15.5 percent of homebuyers in counties. The top panel of the table shows that the share of very low-income homebuyers is about the same for both individual-buyer and developer for-sale projects: 33.9 percent of individual homebuyers have incomes below 50 percent of median income, compared to 32.2 percent of for-sale homebuyers. The percentages of homebuyers earning less than 30 percent of the median area income are 7.2 percent and 8.5 percent for individual-buyer and developer for-sale projects, respectively.

Although the income levels of individual-buyer project occupants and developer for-sale project occupants are about the same, Table 5.6 shows that, in the individual-buyer program, the higher the income of the household, the more likely that household is to purchase a home in a census tract with a low poverty rate. The first row indicates that 39 percent of the beneficiaries in

Table 5.5
Incomes of Homebuyer Project Residents by Project Type, and Jurisdiction Type
(Number of Units)

	Resident Income as Percent of Area Median						
						Percent Below	
	30 or Below	30-50	50-60	60-80	Total	30 Percent	50 Percent
Project Type							
Individual-Buyer	620	2,300	1,835	3,871	8,626	7.2 %	33.9 %
Developer For-Sale	156	435	393	851	1,835	8.5	32.2
Jurisdiction Type							
City	699	2,330	1,662	2,981	7,672	9.1 %	39.5 %
Consortium	40	224	315	801	1,380	2.9	19.1
County	37	181	251	937	1,406	2.6	15.5
Total Units	776	2,735	2,228	4,722	10,461	7.4 %	33.6 %
Percent of Units	7.4	26.1	21.3	45.1	100.0		

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

[26]In individual-buyer projects, HOME funds are only used to pay for property acquisition, and the project owner is a single individual. Most of these projects provide households with downpayment or closing cost assistance to help them with upfront costs. In most projects, buyers must borrow the bulk of the purchase price from private lenders. In developer for-sale projects, developers receive HOME funds to help build or renovate units for eventual sale to individuals.

the highest income category (60 to 80 percent of median income) found and purchased units in tracts with poverty rates under 10 percent. In contrast, only 13 percent of those with incomes below 30 percent of the median bought units in similar tracts. Fully 83 percent of all individual-buyers choose homes in non-poor areas (i.e., tracts where the percent of households in poverty is less than 30 percent).

There is no relationship between resident income levels and tract poverty rates in developer for-sale projects; the location of a HOME-assisted for-sale unit depends on a developer decision on where to site a project. Unlike beneficiaries in the individual-buyer program, higher-income homebuyers in developer for-sale projects cannot choose to buy in any neighborhood, including

Table 5.6
Incomes of Homebuyer Project Residents by Project Type by Tract Percent Poverty
(Percent of Units)

	Resident Income as Percent of Area Median				
Individual-Buyer	30 or Below	30-50	50-60	60-80	Total
Tract Percent Poverty					
Below 10	13	19	28	39	29
10-19	25	35	35	34	34
20-29	29	25	21	15	20
30-39	16	13	11	7	10
40+	18	8	5	5	7
Total	100	100	100	100	100
Developer For-Sale					
Tract Percent Poverty					
Below 10	9	11	16	13	13
10-19	11	15	21	17	17
20-29	21	17	18	16	17
30-39	34	31	19	20	24
40+	26	26	26	34	30
Total	100	100	100	100	100

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census
Note: Percentages may not add to 100 due to rounding

tracts with low poverty rates. For their part, developers choose neighborhoods for various reasons; most nonprofits limit themselves to only some low-income neighborhoods, and for-profit developers may select neighborhoods based on a desire to minimize the amount of subsidy they require; i.e., by picking neighborhoods where properties can be acquired relatively cheaply.

The bottom panel of Table 5.6 shows that 60 percent of households earning less than 30 percent of the area median income and 54 percent of households earning from 60 to 80 percent of the area median income are in very poor areas (i.e., tracts in which 30 percent or more of the households are in poverty). Overall, 54 percent of developer for-sale units are located in tracts with poverty rates of 30 percent or more. While not shown in the table, 47 percent of these are occupied by households earning from 60 to 80 percent of the median income.

The concentration of developer for-sale projects in very poor areas is troubling. It raises questions about whether beneficiaries might be better served by individual-buyer projects. A more positive interpretation of the data would be that some households with relatively high incomes can be attracted to poor neighborhoods. Viewed this way, a developer for-sale project could be an effective means for promoting reinvestment in communities. It is not clear, however, that it makes sense to direct homebuyers into financially risky residential markets. Fortunately, developer for-sale units make up only about 18 percent of all homebuyer units.

Incomes of Owner-Occupied Rehabilitation Program Beneficiaries

The incomes of beneficiaries in owner-occupied rehabilitation projects are generally higher than those in rental properties, and lower than those in homebuyer projects. About 70 percent of beneficiaries have incomes less than 50 percent the area median income; however, these beneficiaries are not overwhelmingly concentrated in poor neighborhoods. Owner-occupied rehabilitation projects are unique among HOME projects in that they tend to cater to the needs of a large number of elderly beneficiaries. The elderly make up over two-fifths of all owner-occupied rehabilitation project beneficiaries. In contrast, the elderly make up only about 13 percent of rental project beneficiaries, less than 3 percent of homebuyers, and about 10 percent of those receiving tenant-based rental assistance.

The elderly have historically been a target of owner-occupied rehabilitation assistance. A number of CDBG-funded owner-occupied rehabilitation programs established by local governments were intended to help elderly households maintain the quality of their homes, on the belief that many lower-income elderly persons on fixed incomes could afford neither the rising cost of home maintenance, nor the amounts needed to replace major systems (e.g., furnaces or roofs) once they failed. As Table 5.7 shows, elderly homeowners represent a substantial share of HOME owner-occupied rehabilitation program beneficiaries: about 43 percent of units (5,786 of a total 13,604 units) are occupied by persons 62 years of age or older. Earlier, in Table 5.2, we showed how these elderly homeowners have lower incomes, as a group, than do non-elderly program beneficiaries. About 35 percent of them have incomes less than 30 percent of median income, compared to around 24 percent of non-elderly beneficiaries.

Unlike HOME-funded homebuyer assistance projects, the income levels of owner-occupied rehabilitation projects households are not lower in cities than in urban counties or consortia. The middle panel of Table 6.7 shows that there is no material difference among jurisdictions in the

Table 5.7
Incomes of Owner-Occupied Rehabilitation Project Residents by Elderly Status Jurisdiction Type and Tract Percent Poverty
(Number of Units)

	Resident Income as Percent of Area Median					
	30 or Below	30-50	50-60	60-80	Total	Percent Below 30 Percent
Elderly Status						
Elderly	2,054	2,545	645	542	5,786	35.5
Non-Elderly	1,920	3,049	1,119	1,730	7,818	24.6
Jurisdiction Type						
City	2,654	3,648	1,164	1,550	9,016	29.4
Consortium	654	890	261	318	2,123	30.8
County	666	1,052	337	404	2,459	27.1
Tract Percent Poverty						
Below 10	857	1,472	532	651	3,512	24.4
10-20	904	1,423	496	708	3,531	25.6
20-30	732	1,055	297	371	2,455	29.8
30-40	633	809	216	284	1,942	32.6
40+	842	828	208	244	2,122	39.7
Total Units	3,974	5,594	1,764	2,272	13,604	29.2
Percent of Units	29.2	41.1	13.0	16.7	100.0	

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

percent of households below 30 percent of median income who reside in owner-occupied rehabilitation projects. Moreover, although it is not shown on the table, there is no relationship between jurisdiction type and the percentage of project beneficiaries who are elderly.

The bottom panel of Table 5.7 shows a strong relationship between tract poverty levels and the income levels of rehabilitation project occupants. The last column of the table shows that the percentage of owner-occupied rehabilitation project beneficiaries with incomes below 30 percent of the median rises as the tract poverty rate tract increases. This percentage ranges from 24.4 percent of beneficiaries in tracts with poverty rates below 10 percent, to 39.7 percent of beneficiaries in tracts with poverty rates of 40 percent or more. Not shown on the table, the share of beneficiaries in non-poor tracts (i.e., tracts in which the poverty rate is under 30 percent) rises steadily from about 63 percent for beneficiaries with incomes less than 30 percent of the area median income, to roughly 77 percent for beneficiaries with incomes between 60 to 80 percent of the area median. This pattern is consistent with homeowners trying to buy homes in the lowest poverty neighborhoods that they can afford, and also reveals that poor homeowners do not always live in the poorest neighborhoods. We were unable to determine the extent to which the pattern simply reflects the distribution of the low-income owner-occupied housing stock in need of rehabilitation.

Race and Ethnicity of HOME Project Residents

Our analysis of the race and ethnicity of HOME beneficiaries proved to be a difficult task, requiring cautious interpretations of complex patterns. The principal problem is that it is hard to make generalizations about race and ethnicity based on national figures. The main difficulty here is that there are higher levels of project activity in certain places than there are in others. The racial and ethnic characteristics of households in these places tend to dominate the national figures. For example, much of the disproportionately large share of Hispanic homebuyers can be traced to large homebuyer programs in two states with large Hispanic populations—California and Texas.[27] If, for example, participating jurisdictions in these two states decided not to fund homebuyer programs, the racial/ethnic distribution of HOME-assisted homebuyers at the national level would be sharply altered.

We do not attempt to explain all of the racial patterns we observed, and we wish to caution the reader against haphazardly attributing cause and effect based on the figures appearing in this report. In the following analysis, we are often relegated to describing simple associations. At times, the racial and ethnic patterns described in this chapter raise as many questions as they answer. If a pattern was unanticipated, it is unlikely that we would have collected the information needed to explain the pattern in our interviews.

In the following tables, figures for whites and blacks include only non-Hispanics. Hispanics can be of any race. The "other" category includes Asians, Pacific Islanders, Native Americans, Alaska Natives, some persons of mixed race, and other groups. Because in no case do households in the "other" category constitute more than four percent of project occupants, we do not analyze this population with the same level of detail as other racial or ethnic groups.

Table 5.8 shows that the total HOME-assisted population in local participating jurisdictions is 38 percent white, 41 percent black, 18 percent Hispanic, and 3 percent "other." Compared to this distribution, black households are somewhat overrepresented in rental housing and tenant-based assistance projects (47 percent and 45 percent, respectively), Hispanic households are a

[27]About 30 percent of all homebuyer beneficiaries, and 64 percent of all Hispanic homebuyer beneficiaries are in California and Texas.

disproportionate share of homebuyers (32 percent), and white households make up a disproportionate share of owner-occupied rehabilitation project beneficiaries (50 percent). As we did for the income characteristics of beneficiaries, we now discuss, in turn, racial and ethnic patterns for rental housing projects, homebuyer projects, and owner-occupied rehabilitation projects.

Race and Ethnicity of Rental Project Residents

Table 5.8 showed that blacks have received more rental project assistance than whites and Hispanics. Table 5.9 describes the racial and ethnic composition of rental housing units by type of

Table 5.8
Distribution of HOME Beneficiaries by Project Type and Race/Ethnicity of Head of Household
(Percentage of Units)

	Project Type									
	Rental		Homebuyer		Owner-Occupied Rehab		Tenant-Based Rental Asst.		Total	
Race/Ethnicity	Number	Pct	Number	Pct	Number	Pct	Number	Pct	Number	Pct
White, non-Hispanic	4,997	33 %	4,858	31 %	8,203	50 %	4,968	38 %	23,026	38 %
Black, non-Hispanic	7,144	47	5,278	34	6,319	39	5,810	45	24,551	41
Hispanic	2,587	17	4,989	32	1,517	9	1,656	13	10,749	18
Other	600	4	485	3	216	1	565	4	1,866	3
Total	15,328	100 %	15,610	100 %	16,255	100 %	12,999	100 %	60,192	100 %

Source: Compiled by the Urban Institute based on HOME C/MIS data.

project ownership, jurisdiction type, and census tract poverty rate. The right-hand section of the table shows the percentage of blacks, Hispanics, and minorities (including "other") residing in projects in each category. The top panel of the table shows that ownership of rental projects bears some relationship to the percentage of minority residents in HOME-assisted projects; nonprofits and public agency projects tend to have slightly lower minority percentages (60.5 percent and 58.5 percent, respectively) than do individual (70.7 percent), corporate (72.7 percent), or partnership projects (78.5 percent). A surprisingly small share of black households are served by public agencies (25.6 percent); however, as noted in previous chapters, public agencies are responsible for very few rental project units (less than 6 percent of all rental project units), and one should exercise caution in interpreting this result.

The middle panel of Table 5.9 shows that minority percentages in rental projects differ substantially across jurisdictions; percentages of minority residents range from 73.1 percent for cities, to 58.5 percent for urban counties, to 41.1 percent for consortia. Consortia projects have fewer black and Hispanic residents than the program average; urban county projects have fewer black residents. The relationship between the poverty level of the project tract and the percentage of a project residents that are black is strong, but there is no corresponding relationship for Hispanics; blacks comprise 33.4 percent of project residents in tracts with poverty rates under 10 percent and 61.3 percent of residents in tracts with poverty rates of 40 percent or more.

Table 5.10 indicates that HOME rental projects do not seem to be having a major deconcentration effect, even when compared to public housing. The "Total" columns for HOME and public housing units show that public housing units are more likely to be located in more heavily black tracts than HOME units; 37 percent of public housing units are in tracts with black population percentages of 60 percent or more, compared to 23 percent of HOME units. Similarly, public

Table 5.9
Race and Ethnicity of Rental Project Residents by Project Ownership Type, Jurisdiction Type and Tract Percent Poverty

	Resident Race/Ethnicity							
	White	Black	Hispanic	Other	Total	Percent Black	Percent Hispanic	Percent Minority
Ownership Type								
Individual	603	924	458	71	2,056	44.9 %	22.3 %	70.7 %
Corporation	818	1,656	445	81	3,000	55.2	14.8	72.7
Partnership	257	695	216	29	1,197	58.1	18.0	78.5
Nonprofit	1,738	1,898	648	119	4,403	43.1	14.7	60.5
Public	277	171	137	82	667	25.6	20.5	58.5
Jurisdiction Type								
City	2,273	4,450	1,428	294	8,445	52.7 %	16.9 %	73.1 %
Consortium	778	360	156	28	1,322	27.2	11.8	41.1
County	698	592	325	68	1,683	35.2	19.3	58.5
Tract Percent Poverty								
Below 10	1,280	835	293	93	2,501	33.4 %	11.7 %	48.8 %
10-19	747	968	355	77	2,147	45.1	16.5	65.2
20-29	753	971	316	97	2,137	45.4	14.8	64.8
30-39	443	1,067	524	51	2,085	51.2	25.1	78.8
40+	510	1,559	405	71	2,545	61.3	15.9	80.0
Total Units	3,749	5,402	1,909	390	11,450	47.2 %	16.7 %	67.3 %
Percent of Units	32.7	47.2	16.7	3.4	100.0			

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

housing units occupied by blacks are more likely to be located in heavily black tracts than are HOME units occupied by blacks (59 percent and 43 percent, respectively). These figures suggest that HOME rental projects have, at best, a minimal deconcentration effect. The fact remains that 43 percent of the black households in HOME rental projects are in tracts that are 60 percent or more black, while 82 percent of white households occupy tracts that are less than 20 percent black.

Table 5.11 presents an analysis of racial mixing within individual projects that is similar to the analysis of income mixing presented earlier in this chapter. The table shows the share of units in a rental project headed by a black head of household for projects of various sizes. As before, when this share is 100 percent, it means there is no mixing—the project is occupied entirely by black households. When the share equals zero percent, it means no mixing is taking place because there are no black households in the project. This indicator only measures racial mixing taking place with black households.

Although the figures in the table are intended to depict racial mixing *within* projects, they tend to reinforce an image of segregated developments. About 30 percent of rental projects are occupied entirely by black households, and there is no mixing in another 35 percent of units because they contain no black households. About 35 percent of rental projects with two or more units contain a

Table 5.10
Race and Ethnicity of HOME Rental Projects and Public Housing Authority Projects by Tract Percent Black
(Percent of Units)

	Resident Race/Ethnicity							
	HOME Rental Units				Public Housing Units			
	White	Black	Hispanic	Total	White	Black	Hispanic	Total
Tract Percent Black								
Below 20	82	28	73	54	77	15	63	37
20-39	9	20	12	15	11	14	14	15
40-59	4	9	11	8	5	12	11	11
60+	4	43	3	23	7	59	12	37
Total	100	100	100	100	100	100	100	100

Source: HUD C/MIS, Goering et al. (1994)

Table 5.11
Distribution of HOME Rental Projects by Racial Composition and Project Size

	Project Size							
Percentage of Units in Project with Black Head of Household	2 units		3 or 4 units		5 or more units		Total	
	Number	Pct	Number	Pct	Number	Pct	Number	Pct
0	140	37	110	43	151	29	401	35
1 to 10	0	0	0	0	27	5	27	2
11 to 25	0	0	9	4	73	14	82	7
26 to 50	44	12	29	11	75	14	148	13
51 to 75	0	0	35	14	54	10	89	8
76 to 90	0	0	0	0	39	7	39	3
91 to 99	0	0	0	0	20	4	20	2
100	190	51	72	28	88	17	350	30
Total	374	100	255	100	527	100	1,156	100

Source: Compiled by the Urban Institute based on HOME C/MIS data.
Includes all project completions as of 9-30-96.

mixture of black households and other households. Multifamily projects (those with five or more units) are more likely to have mixing than smaller projects. About 54 percent of multifamily projects contain some mixing; the share of projects with racial mixing falls to 29 percent for 3-or-4 unit projects, and 12 percent for 2-unit projects. Of course, degrees of integration can vary; most observers would conclude that a single minority-occupied unit in a large and otherwise non-minority building would be less integrated than a half-and-half split. In about 24 percent of multifamily projects (i.e., almost half of all mixed multifamily projects), the share of households with a black head of household ranges from 26 to 75 percent—a degree of integration representing more than a token amount.

Race and Ethnicity of Homebuyer Project Residents

In some respects, the relationships among homebuyers with regard to race and ethnicity, jurisdiction type, and tract poverty shown in Table 5.12 resemble those for rental project occupants: city and county projects have higher percentages of minority residents than do consortia; and a higher percentage of units located in higher poverty tracts are occupied by minorities compared to lower poverty tracts. The top panel of the table shows that the percentage of minority residents in developer for-sale projects is higher than that of individual homebuyer projects; 66.8 percent of individual-buyer units are occupied by minorities, compared to 81 percent of developer for-sale units.

Table 5.13 shows that, overall, the percentage of developer for-sale units that are in heavily minority neighborhoods (60 percent or more non-white) is almost double that of units occupied by individual-buyers: 62 percent for developer for-sale properties, and 34 percent for individual-buyers. The table also shows that black and Hispanic individual-buyers more often end up in units in less-heavily minority neighborhoods than is true of buyers of developer for-sale units. As the table shows, 17 percent of black individual-buyers and 12 percent of Hispanic individual-buyers occupy units in

Table 5.12
Race and Ethnicity of Homebuyer Project Residents by Project Type, Jurisdiction Type and Tract Percent Poverty
(Number of Units)

	Resident Race/Ethnicity							
	White	Black	Hispanic	Other	Total	Percent Black	Percent Hispanic	Percent Minority
Project Type								
Individual-Buyer	2,865	2,822	2,730	210	8,627	32.7	31.6	66.8
Developer For-Sale	352	806	645	46	1,849	43.6	34.9	81.0
Jurisdiction Type								
City	1,917	3,033	2,530	199	7,679	39.5	32.9	75.0
Consortium	847	357	151	30	1,385	25.8	10.9	38.8
County	452	237	693	27	1,409	16.8	49.2	67.9
Tract Percent Poverty								
Below 10	1,474	688	505	76	2,743	25.1	18.4	46.3
10-19	1,089	1,049	996	91	3,225	32.5	30.9	66.2
20-29	383	848	729	41	2,001	42.4	36.4	80.9
30-39	188	622	467	20	1,297	48.0	36.0	85.5
40+	82	419	577	28	1,106	37.9	52.2	92.6
Total Units	3,217	3,628	3,375	256	10,476	34.6	32.2	69.3
	30.7	34.6	32.2	2.4	100.0			

Source: Compiled by the Urban Institute based on HOME C/MIS data, U.S. Census tracts with minority percentages less than 20 percent. Only 9 percent of black-occupied developer for-sale units and 6 percent of Hispanic-occupied developer for-sale units are in predominantly white census tracts (less than 20 percent minority). In contrast, 74 percent of black-occupied and 78 percent of Hispanic-occupied developer for-sale units are in tracts with more than 60 percent minority population, compared to 48 percent and 52 percent of units bought by black and Hispanic individual-buyers. The high minority participation in developer for-sale projects (81 percent) and the concentration of developer for-sale projects in predominantly minority tracts should raise some concerns about whether fair housing regulations are being followed.

The data seem to support the idea that individual-buyer projects are superior to developer for-sale projects with regard to potential desegregative effects. Table 5.14 takes a more refined look at the neighborhood choices exercised by individual homebuyers to determine whether whites, blacks, and Hispanics choose or avoid neighborhoods with various concentrations of black and Hispanic populations. The table shows that over 90 percent of white buyers select neighborhoods that are more than 80 percent white. The same is true of black buyers and Hispanic neighborhoods; 91 percent of black buyers select neighborhoods that are less than 20 percent Hispanic. Hispanics, however, are only somewhat more likely to buy units in black neighborhoods—79 percent of Hispanic buyers choose neighborhoods that are less than 20 percent black. Finally, both blacks and Hispanics are more likely than whites to select units in neighborhoods where they represent fewer than 20 percent of the population; 29 percent of black program participants buy units in tracts that are less than 20 percent black; 31 percent of Hispanic buyers choose units in tracts that are less than 20 percent Hispanic. The willingness of black and Hispanic households to venture into predominantly white neighborhoods is a clear desegregative effect.

Table 5.13
Race and Ethnicity of Homeowner Project Residents by Project Type and Tract Percent Minority
(Percent of Units)

	Resident Race/Ethnicity				
Individual-Buyer	White	Black	Hispanic	Other	Total
Tract Percent Minority					
Below 20	71	17	12	33	34
20-39	19	18	17	19	18
40-59	6	17	18	10	14
60 or More	4	48	52	38	34
Total Percent	100	100	100	100	100
Total Units	2,864	2,821	2,645	210	8,540
Percent of Units	33.5	33.0	31.0	2.5	100.0
Developer For-Sale					
Tract Percent Minority					
Below 20	59	9	6	28	18
20-39	23	9	10	20	12
40-59	8	8	6	11	8
60 or More	11	74	78	41	62
Total Percent	100	100	100	100	100
Total Units	352	805	629	46	1,832
Percent of Units	19	44	34	3	100

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census
Note: Percentages may not add to 100 due to rounding

Table 5.14
Race and Ethnicity of Homeowner Individual-Buyer Project Residents
By Tract Percent Black and Percent Hispanic
(Percent of Units)

	Resident Race/Ethnicity				
	White	Black	Hispanic	Other	Total
Tract Percent Black					
Below 20	91	29	79	77	67
20-39	3	8	7	9	6
40-59	2	9	6	2	5
60 or More	4	53	8	13	22
Total Percent	100	100	100	100	100
Tract Percent Hispanic					
Below 20	92	91	31	73	72
20-39	6	6	25	12	12
40-59	2	2	17	6	7
60 or More	1	1	27	9	9
Total Percent	100	100	100	100	100

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census
Note: Percentages may not add to 100 due to rounding

Race and Ethnicity of Owner-Occupied Rehabilitation Projects

The next table shows the relationship between the race and ethnicity of owner-occupied rehabilitation project beneficiaries, and elderly status, type of jurisdiction and tract poverty. Table 5.15 shows that elderly and non-elderly beneficiaries are about equally likely to be minorities; 52.1 percent of elderly beneficiaries and 47.8 percent of non-elderly beneficiaries are non-white. As with renters and homebuyers, the percentage of black, Hispanic, and total minority beneficiaries increases with the poverty level of the tract. The percentage of beneficiaries that are minorities goes from 17 percent (in tracts with poverty rates below 10 percent) to 87 percent (in tracts with poverty rates in excess of 40 percent). The table does show, however, that the percentage of minority owner-occupied rehabilitation program beneficiaries is substantially lower in counties and consortia than in cities, probably reflecting the racial and ethnic composition of all low-income homeowners across jurisdictions.

Table 5.15
Race and Ethnicity of Owner-Occupied Rehabilitation Project Residents by Elderly Status Jurisdiction Type and Tract Percent Poverty
(Number of Units)

	Resident Race/Ethnicity							
Elderly Status	White	Black	Hispanic	Other	Total	Percent Black	Percent Hispanic	Percent Minority
Elderly	2768	2,505	465	45	5,783	43.3	8.0	52.1
Non-Elderly	4,073	2,822	782	131	7,808	36.1	10.0	47.8
Jurisdiction Type								
City	3,459	4,486	956	104	9,005	49.8	10.6	61.6
Consortium	1,592	370	121	38	2,121	17.4	5.7	24.9
County	1,790	470	169	30	2,459	19.1	6.9	27.2
Tract Percent Poverty								
Below 10	2,901	437	121	53	3,512	12.4	3.4	17.4
10-19	2,259	991	218	59	3,527	28.1	6.2	36.0
20-29	939	1,194	295	26	2,454	48.7	12.0	61.7
30-39	462	1,196	266	16	1,940	61.6	13.7	76.2
40+	276	1,507	315	18	2,116	71.2	14.9	87.0
Total Units	6,841	5,327	1,247	176	13,591	39.2	9.2	49.7
Percent of Units	50.3	39.2	9.2	1.3	100.0			

Source: Compiled by the Urban Institute based on HOME C/MIS data; U.S. Census

Benefits to HOME Project Residents

This section briefly examines the benefits that accrue to HOME project residents, focusing on the affordability of HOME-assisted rental units, the quality of HOME units, and the quality of the neighborhood in which HOME units are located. In the beginning of this chapter, we noted that residents of HOME program housing have incomes that are substantially below the maximum allowed by Federal statutes. In addition to low-income occupancy, however, HOME mandates that units be affordable to households with incomes at 65 percent of the median income, and in projects with five or more units, twenty percent of units must be affordable to those with incomes at 50 percent of the median. Affordability is defined as 30 percent of these median income levels, or the HUD-established Fair Market Rent, whichever is lower. If households have incomes that are substantially below these median income levels, and our analysis shows that many do, then the rents they pay may represent a substantial portion of their income. For example, if a household with an income at 30 percent of the median occupied a unit that rented for the maximum amount allowable (30 percent of the income of a household with an income at 65 percent of median), that household would pay 65 percent of its income in rent.

Table 5.16 presents the average rent-to-income ratios (defined as the ratio of tenant-paid rent to household income) for households in each median income group and each rental project ownership type category. The table shows that households with incomes at 30 percent of the median and below do pay higher shares of their income for rent, but, on average, they pay far less than they would if they paid the maximum rents allowable. The table shows that residents with incomes in the 30 percent of median income and below category pay, on average, 37.8 percent of their income on rent. (See the last row of the table.) These ratios decline as income rises: on average, those with incomes between 30 and 50 percent of the median pay 30.8 percent of their income on rent; those with incomes between 50 and 60 percent pay 26.8 percent; and those with incomes between 60 and 80 percent pay 21.3 percent.

Table 5.16
Average Rent-to-Income Ratio in HOME Rental Projects
By Resident Percentage of Median Income and Project Ownership Type

Residential Income As Percentage of Median Income

Ownership Type	30 or Below	30-50	50-60	60-80	Total
Individual					
Units	1,897	1,444	471	195	4,007
Avg Rent/Income	41.9 %	31.6 %	26.2 %	22.6 %	35.3 %
Corporate					
Units	980	639	197	60	1,876
Avg Rent/Income	37.3 %	30.1 %	29.5 %	21.6 %	32.5 %
Partnership					
Units	2,066	2,840	1,044	118	6,068
Avg Rent/Income	37.8 %	30.8 %	27.8 %	23.2 %	33.5 %
Nonprofit					
Units	2,815	671	236	665	4,387
Avg Rent/Income	37.3 %	30.7 %	25.8 %	19.7 %	33.2 %
Public					
Units	665	335	80	61	1,141
Avg Rent/Income	30.9 %	30.0 %	23.5 %	19.9 %	29.5 %
Total Units	8,423	3,891	1,078	386	13,778
Average Rent/Income	37.8 %	30.8 %	26.8 %	21.3 %	33.2 %

Source: Compiled by the Urban Institute based on HOME C/MIS data

The table also shows that average unit affordability for does not vary much by type of project ownership. For occupants with incomes at 30 percent of the median or below, nonprofit and for-profit corporation unit rents, on average, are 37.3 percent of income, compared to 37.8 percent for partnership units, and 41.9 percent of individually owned units. Units sponsored by public agencies are the most affordable to households in this income category: they rent for 30.9 percent of income, on average.

However, more than one-half (52 percent) of households with incomes at or below 30 percent of median income receive tenant-based rental assistance, funded from HOME or other sources. (Figures not shown on table.) This is why the average rent paid by the poorest HOME residents falls below what would be expected if they paid rents out of their cash income, alone. Fully 75 percent of households with incomes at or below 30 percent of median income who receive *no* tenant-based rental assistance pay more than 30 percent of cash income in rent; 42 percent pay more than 50 percent of cash income in rent.[28]

Table 5.17
Tenant-Paid Rents as a Percentage of Tenant Incomes and HUD Fair Market Rents By Ownership Type, for Households With Incomes Below 30 Percent of Median
(Unassisted Households, Only)

Owner Type	Total N of Households	Percent With Rental Assistance	Tenant-Paid Rents as a Percent of: Tenant Income	Tenant-Paid Rents as a Percent of: Fair Market Rent
Individuals	937	45 %	49 %	64 %
Partnerships	1,431	59	48	68
Corporations	713	52	41	58
Nonprofits	2,270	44	41	53
Public Agencies	485	43	35	43

Source: Compiled by the Urban Institute based on HOME C/MIS data
Notes: Tenant-paid rent includes utilities; Rental Assistance includes Section 8 vouchers HOME Tenant-Based Rental Assistance and other subsidies paid directly to tenants.

Table 5.17 shows the average rent burden for households with incomes below 30 percent of median income who receive *no* rental assistance. The table also shows the average "benefit" these residents receive from living in a HOME-assisted unit; this benefit is the difference between the rent a resident pays in a HOME unit compared to the rent he or she would expect to pay for

[28]Figures are from HUD Office of Policy Development and Research tabulations from the HOME C/MIS, using data as of April, 1997. These figures confirm earlier findings from the same data source.

modest-quality market-rate housing; i.e., the Fair Market Rent.[29] The table shows that for each type of property owner, unassisted poor renters pay, on average, substantially more than 30 percent of their income on rent. However, units owned by public agencies, nonprofits, and corporations are somewhat more affordable than those owned by individuals and partnerships. But even though residents pay a high percentage of cash income in rent compared to HUD's affordability standard of 30 percent, they do receive a substantial discount over prevailing rents. Tenant-paid rents in units owned by public agencies are less than half of the estimated market rent for a same-size modest quality unit; tenants in nonprofit-owned units pay only 53 percent of the market rent.

In addition to affordable units or units that rent at a discount below market, residents may benefit from high quality units and units in good neighborhoods. Table 5.18 shows the responses given by HOME project residents to our telephone survey. Although this survey included beneficiaries of all types of programs, the response rates were low, and we had to combine all the results for this table. The number of responses for each item varies mostly because some items were not applicable for certain beneficiaries. The top panel of the table shows residents' summary rating of the physical quality of their unit: 24.3 percent thought their unit was "excellent," while 48.3 percent thought it "good." Another 20.9 percent rated their unit as "fair" and only 6.4 percent said "poor."

Table 5.18
HOME Resident Ratings of Unit and Building Quality
(Percentage of Residents)

		Respondent Rating				
	N	Excellent	Good	Fair	Poor	Total
Rating of Current Unit:						
Condition	296	24.3%	48.3%	20.9%	6.4%	100.0%
		Agree	Disagree	Not Sure		Total
Agree/Disagree With Following?						
Common Areas Well Maintained	108	80.6%	16.7%	2.8%		100.0%
Building Grounds Well Maintained	83	74.7%	22.9%	2.4%		100.0%
Crime a Problem in Building	105	24.8%	72.4%	2.9%		100.0%
Noise a Problem in Building	79	34.2%	63.3%	2.5%		100.0%
		Major	Minor	None		
Current Unit Improvement:						
Compared to Previous Unit	132	52.3%	23.5%	22.0%		

Source: Beneficiary Survey

[29]For each unit size in each metropolitan area, HUD calculates a Fair Market Rent, which is the 40th percentile of rents paid by recent movers, adjusted for a utility allowance.

We also asked residents about certain characteristics of their buildings (these questions applied only to those residing in multi-unit properties). Most residents agreed that their common areas were "well maintained" (80.6 percent of residents) as were the building grounds (74.7 percent). However, about one-quarter of residents (24.8 percent) agreed with the statement "crime is a problem in my building," and an even higher percentage (34.2 percent) agreed that "noise was a problem." For those residents that moved into their unit from a different unit, we asked if their unit was an improvement over their previous unit. Over half of the respondents said that their current unit was a "major improvement" over their previous unit (52.3 percent), and another 23.5 percent said it was a "minor improvement."

Our final category of benefit is the character of the neighborhood in which the HOME property is located. Table 5.19 shows a list of possible neighborhood problems. We asked respondents to tell us whether each was a major problem, minor problem, or no problem. As the table shows, most residents rated most problems as minor or not a problem. The problems most commonly cited as "major" were drug deals in the street (25.6 percent of respondents) and street noise (20.9 percent of respondents). The prevalence of these problems seems to indicate that our survey has a big-city bias. Fewer respondents were concerned about trash and litter (16.2 percent "major"), muggings and break-ins, boarded buildings, or undesirable businesses. We also asked about neighborhood services, and learned that most residents consider low-quality schools, lack of public transit, no grocery stores, and few parks and recreation opportunities to be minor problems or not a problem. Within this list, the lack of parks and recreation was seen as a major problem the most often (17.8 percent of respondents).

Table 5.19
Home Project Resident Ratings of Neighborhood
(Percentage of Residents)

		Problem Rated As:				
Neighborhood Environment	N	Major	Minor	Not a Problem	Don't Know	Total
Muggings/Break-Ins	297	8.4%	32.7%	53.9%	5.1%	100.1%
Drug Deals in the Street	297	25.6%	26.6%	42.8%	5.1%	100.1%
Noise in the Street	297	20.9%	29.3%	49.2%	0.7%	100.1%
Trash/Litter	297	16.2%	29.0%	53.5%	1.3%	100.0%
Boarded Buildings	297	8.8%	20.5%	67.3%	3.4%	100.0%
Undesirable Business	297	7.4%	14.5%	74.1%	4.0%	100.0%
Neighborhood Services						
Low-Quality Schools	297	11.8%	16.2%	59.3%	12.8%	100.1%
Lack of Public Transit	163	3.7%	23.3%	71.2%	1.8%	100.0%
No Grocery Stores	163	13.5%	22.7%	63.8%	0.0%	100.0%
Few Parks/Recreation	163	17.8%	21.5%	58.3%	2.5%	100.0%
		Improve	Decline	Stable	Don't Know	
Neighborhood Improve/Decline						
In Past 5 Years	206	37.9%	18.4%	38.8%	4.9%	100.0%
In Next 5 Years	297	26.0%	16.8%	41.8%	5.4%	90.0%

Source: Beneficiary Survey

The last panel of the table shows resident ratings of neighborhood change in the past five years and their expectations for the next five years. The table shows that roughly similar proportions of residents believed their neighborhood had declined (18.4 percent) or would do so in the future (16.8 percent). Most residents believed their neighborhood would remain stable (41.8 percent). Finally, we asked residents to rate their neighborhood on a scale of 1 to 5, with 1 being the "worst place to live" and 5 being the "best place to live" (not shown on table). Overall, 51.2 percent of our sample rated their neighborhood as a "4" or "5" on our scale. Another 32.7 percent chose the middle value "3."

CHAPTER 6
CHARACTERISTICS OF STATE HOME PROGRAMS

Introduction and Summary of Findings

To this point, this report has focused solely on how *local* actors have implemented the HOME program. As explained in Chapter 1, that was always intended as the central topic for this evaluation. There is another important component of HOME, however—implementation by State governments. Our research goals for the State HOME programs were explicitly descriptive: HUD has not previously collected data systematically on the State HOME program (or on any other program administered by States) Therefore, we created an open-ended survey instrument designed to elicit descriptive information from program managers about the types of activities funded with HOME dollars, the structure of State HOME program administration, and evaluative comments on HOME as a tool to assist States in meeting their affordable housing goals. The information in this chapter is based primarily on phone interviews conducted with HOME program officials in 38 States in the fall of 1996.[30]

The State portion of the HOME program is sizeable. After set-asides for Indian Tribes (prior to fiscal year 1998), Insular Areas, technical assistance, and other items specified in appropriation acts, the program allocates 40 percent of all remaining appropriated funds to States. By statute, States are participating jurisdictions and may devise programs that fund any mix of eligible HOME activities. States may devise methods for administering their programs that include assignment of program responsibilities among State agencies and/or delegation of functions to local governments, nonprofits, or other entities. Regardless of how such responsibilities are assigned, however, the State always retains ultimate responsibility for compliance with Federal statutory and regulatory requirements. States may opt for policies that encourage project development in certain geographic areas, combine HOME with other affordable housing investments, or otherwise promote the objectives of the National Affordable Housing Act.

States have made use of the flexibility allowed under the HOME program to select HOME activities for funding, change those activities over time, and adopt very different methods for funding

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[30]Researchers attempted to contact these 12 States no fewer than 4 times before deciding that project time constraints necessitated completing the report with information from 38 States. Nevertheless, because of the substantial uniformity in State HOME program administration across States, and because the States not reporting account for only 15 percent of cumulative State HOME disbursements for FY 1992 through FY 1996, we judge that the responses received from these 38 States present a fair picture of national patterns. The 12 States not included in this report are: Alaska, Arkansas, Connecticut, Hawaii, Iowa, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Washington, and Wisconsin.

and administering programs than was true under the CDBG program, which in some States provided the single largest source of subsidy for affordable housing prior to HOME.

States have selected a mix of HOME activities that generally resembles that of local programs, although from fiscal year 1992 through 1994, States' share of funds committed to rental projects (48 percent) was lower than the local share to rental (64 percent). Most States report making some major changes in their allocations across activities over the past few years: as with localities, there has been a shift away from owner-occupied rehabilitation and toward homebuyer assistance. Administrators told us that they changed funding allocations most often in response to changing program demand (e.g., evidenced through competitions) and requests from advocacy groups. They less often told us that they shifted funding because of explicit State housing policy decisions. The Consolidated Plan did not prescribe State funding allocations.

States have departed from CDBG program practice in two important ways. First, the CDBG program stipulates that local governments must administer State CDBG-funded projects. All of the States responding to our survey say that State agencies now administer at least some, if not large portions, of their HOME programs. Second, CDBG requires that States fund only projects located in areas that are not otherwise entitled to receive their own formula allocations; in effect, the State's metropolitan areas. In HOME, 41 percent of States allocate funding to all areas of the State, including areas that are PJ s and receive their own funding allocation. Thirty-eight percent of States allocate funds only for projects in areas that are not local participating jurisdictions. Another 21 percent follow the same general policy, but provide some funding to local participating jurisdictions for high-priority projects.

State administrators cited three benefits of HOME most often: (1) it increased the amount of funding available for affordable housing; (2) it allowed States to reach very low income groups; and (3) it increased the number and capacity of CHDOs and other nonprofits to undertake affordable housing projects. Most State administrators report they would like to better-serve the neediest areas of their State—rural areas, for the most part. Some do target funding to the neediest areas, but they also report encountering difficulty reaching these areas because local governments and developers lack the capacity to participate in HOME effectively. The two most common State criticisms of HOME are Davis-Bacon requirements (which apply to all Federal housing programs) and low rent restrictions (which make units affordable, but also limit project cash flows, requiring subsidies deeper than State administrators would prefer).

Activity Mix

Patterns of Support for Home Activities

HUD's management system tracks the amount of funds States allocate to the four basic HOME activities: (1) the development, acquisition, and rehabilitation of rental housing; (2) the rehabilitation of owner-occupied housing; (3) the development and rehabilitation of housing for new homebuyers and homebuyer assistance; and (4) tenant-based rental assistance.

States generally supported a mix of activities, rather than concentrating only on one. Table 6.1 shows that all States funded rental housing from funds allocated in Fiscal Years 1992 through 1994, and 92 percent did so in FY 1995. Eighty-eight percent of states supported owner-occupied rehab between 1992 - 1994 and the same percentages pertain to homebuyer assistance, as well. Fewer States funded tenant-based rental assistance programs; percentages funding this activity ranged from 38 percent to 65 percent. (A substantially higher percentage of States funded tenant-based rental assistance than did local participating jurisdictions.)

Table 6.1
Percentage of States Committing Funds to each HOME Activity FY 1992 - 1995
(Percent of States)

	Rental Housing	Owner-Occupied	Home-Ownership	Tenant Based Rental Assistance
% of States Committing Funds				
1992	100	88	88	50
1993	100	88	88	65
1994	100	88	88	54
1995	92	76	76	38

Source: CMIS Cash and Management Information System. Figures are as of September 30, 1996.

To update these figures, we asked State administrators in the Fall of 1996 to tell us whether they funded a particular activity from their FY 1996 HOME allocation. Their responses show that States continue to fund activities at the rates shown in Chart 7.1. Based on our interviews, 97 percent of the responding States (37 of 38 States with completed interviews) funded rental acquisition/construction/rehabilitation; 82 percent (31) funded owner-occupied rehab; 84 percent (32) funded homebuyer assistance; and 42 percent (16) funded tenant based rental assistance.

Finally, 63 percent of the responding States (24) funded CHDO operating expenses or activities to build CHDO capacity; e.g., technical assistance to these groups.

From interview data, we also calculated the combinations of activities States funded. Twelve States (32 percent) fund all 4 activities and 29 States (76 percent) fund at least three activities. Ten States (26 percent) fund all 4 activities plus CHDO operating costs/capacity building expenses. Of the States that fund at least three activities, those three activities are usually rental, owner-occupied rehab, and homebuyer assistance, as implied by the high percentages for these activities shown in Table 6.1. Therefore, when given the choice to concentrate or disperse HOME funds across activities, all State chose to diversify and include nearly all eligible activities within their State programs.

Change in Funding of HOME Activities

Table 6.2 reports the amount and percent of total State HOME funds committed for each activity, from HOME allocations for Fiscal Years 1992 through 1995. The table shows that rental housing projects consistently accounted for almost one-half of State HOME dollar commitments; 49 percent of FY 1992 funding, 46 percent in FY 1993 funds, and 50 percent of FY 1994 funding.[31] These patterns resemble the patterns exhibited in local program funding commitments (Table 2.2), but there are differences in degree, if not in kind. Comparing the FY 1992-94 annual averages for States and local PJs, the States' share going to rental projects (48 percent) was notably lower than the comparable local rental share (64 percent). States devoted somewhat higher shares than localities to owner-occupied rehab (27 percent vs. 21 percent), homebuyer assistance (20 percent vs. 13 percent), and tenant-based assistance (5 percent vs. 2 percent).

Between 1992 and 1994, States as a group shifted funding from owner-occupied rehabilitation to homebuyer assistance. (This occurred at the local level, as well.) The percentage of funds committed by States to owner-occupied rehab programs decreased from 33 percent of FY 1992 allocations to 22 percent of 1994 allocations. Between FY 1992 and FY 1994 States increased

[31]The relatively high percentage of FY 1995 funding committed to rental housing (57 percent) may reflect only the initial funding commitments for that year; this and the other percentages may change as higher portions of the 1995 allocation are committed. For this reason, only the 1992 - 1994 changes are discussed in the text.

the percentage of funds committed to homebuyer assistance programs—from 13 percent to 24 percent of funds allocated.

Table 6.2
State Commitments of HOME Funds by Activity Type, FY 1992-FY 1995
(Dollars in Millions)

	Rental Housing	Owner Occupied	Homebuyer Assistance	Tenant Based Rental Assistance	TOTAL
Amount Committed					
1992	$257	$175	$68	$26	$526
1993	151	88	77	16	332
1994	174	76	83	16	349
1995	104	28	42	7	181
% of Total Committed					
1992	48.8	33.3	13.0	4.9	100
1993	45.5	26.7	23.0	4.7	100
1994	49.9	22.0	23.6	4.5	100
1995	57.0	15.9	23.3	3.8	100

Source: HUD Cash and Management Information System. Figures are as of September 30, 1996.

We asked HOME program staff in individual States whether they made major decreases or increases in activities funded during the "past few years" and whether the State created or terminated particular HOME programs. In all, 24 (63 percent) of the 38 States for which we collected data reported some major change, including termination or start-up of activities, or major shifts in funding allocations. (Figures are not shown on any table.) In sum, HOME's block grant model makes possible considerable change in State program funding policies over time.

We detected no relationship between State regional or size characteristics and change in State funding allocations. In explaining funding policy change, HOME program officials most often cited a desire to respond to levels of program demand or the requests of certain advocacy groups as reasons. In rarer instances, States chose to rechannel funds from one program to another because program administrators felt they had made a sufficient impact on a particular housing problem, and wanted to provide new or additional HOME funds for another activity.

A majority of State administrators indicated that the five-year Consolidated Plan exercised at least some influence on decisions to fund one or more HOME activities. We categorized the Consolidated Plan as having a "very important" influence on decisionmaking in 17 States and a "not very important" influence in 20 States. We concluded that the Plan was very important in States in which applicants had to demonstrate that projects met one of the Plan's priorities. At the extreme, States allocated additional points in the scoring process to project proposals that met the Plan's highest priorities. We concluded that the Plan was not very important in States in which applicants did not have to show that their project reflected Plan priorities, or where program officials reported the Plan lacked sufficient specificity to have a meaningful effect on funding decisions. However, even in these States, some interviewees reported that the process of developing the Plan and identifying the State's housing needs did influence the types of activities the State chose to fund with HOME and program funding levels.

Methods of Allocation

The primary task of State HOME administrators is to fund affordable housing projects. States have two basic ways to do this: either allocate HOME funds to units of general local government, and let them decide which projects to fund, or retain decisionmaking control and make program and project funding choices at the State level. One form of funding allocation—allocating funds by formula—cuts across both basic types.

Funding Allocations to Sub-Units of States

To receive HOME funds local governments must qualify as a "participating jurisdiction." Through a formula consisting of factors related to poverty and housing need, HUD calculates a jurisdiction's HOME allocation amount for any year. If the HOME appropriation in any year is $1.5 billion or more, then local governments may *qualify* to participate in HOME provided their allocation (determined by the formula mentioned above) is $500,000 or more. However, if this allocation is less than $750,000 then local governments must make up the difference between their allocation and the $750,000 using State or local funds. In years when the appropriation falls below $1.5 billion, the threshold for qualification decreases to $335,000 and local governments must make up the difference between their allocation and $500,000. Jurisdictions that use State or local funds to qualify initially as PJs are "shortfall jurisdictions."

As Table 6.3 shows, in 1996, 23 States (62 percent of those responding to this question) had a policy of funding shortfalls; 12 States (32 percent) had a policy of not funding shortfalls; and 2 (6 percent) States did not fund shortfalls because there was no local government in the State that qualified as a potential PJ.[32] Four of the States that currently do not fund shortfalls did so at some point prior to 1996. These States reported their primary reason for ceasing to fund shortfalls was

[32]One of the 38 states that responded to the survey did not provide a response to this question

the desire to reserve all State funds for State-administered programs. Two of these are States with relatively small State HOME allocations. The other two are larger east coast States with large HOME allocations that preferred to put all of their funds into state programs.

Table 6.3
Number of States Funding Shortfall Jurisdictions, Pre-1996 and 1996
(Number of States)

Shortfall policy	Pre-1996	1996
Fund shortfalls	27	23
Do not fund shortfalls	8	12
No eligible shortfalls in State	Don't Know	2

Source: State Administrators' Survey

Even States that maintain a policy of funding shortfall jurisdictions claim that the share of their funds that they need to use for this purpose is now very small. Indeed, they reported receiving fewer requests for funds in the last two years relative to the earlier years of the HOME program. This reflects the fact that once a jurisdiction qualifies as a PJ it retains that designation unless HUD uses its discretionary authority to revoke it.[33] In other words, as the program began there was a sizeable number of local governments that needed this type of support to qualify as a PJ. Now that many of them have qualified, the demand for such support has decreased.

Some States use a formula as a way of devolving decisions to sub-State agencies or units of general local government. Eleven States (29 percent of those reporting) allocated at least some of their funds through a formula that reserves funds for particular areas of the State (about the same share as reported in our first year report). States most often based this formula on population and housing need to ensure that funds were distributed across the State and not concentrated only in areas of high potential demand or concentrations of development capacity. Of States using a formula, 64 percent allocated funds to units of local government, regional planning organizations, housing finance agencies or other entities responsible for designing their own programs and methods of distributing funds to project sponsors. The remaining 36 percent reserved program funds for particular areas of the State,[34] but the State agency administering the HOME program

[33]HOME Final Rule, § 92.107 Fed. Reg. 48,759 (Sept. 16, 1996).

[34]Two of the States used a formula distribution to make both direct allocations and funds reservations.

(referred to in this report as the "State administering agency") decided which projects to fund. This form of funding decision falls under the rubric of State-agency programs, to which we now turn.

Funding Allocations to State Agencies

State Agency Programs. State agencies directly administered at least a portion of HOME funds in all 38 of the States responding to our survey (100 percent, up from 86 percent noted in our first year report.) Under this method of allocating funds, program and project funding decisions are made by State administrators, not local governments or other sub-State agencies or units of general local government. Of these 38 States, 27 (71 percent) used this method exclusively. The remaining 11 States (29 percent) used this method in combination with a formula distribution.

States chose two basic methods to award funds to projects: programs that limit funding only one HOME-eligible activity and programs that accept applications for a range of HOME activities. As shown on Table 6.4, half of the reporting States (19) chose to allocate funds to projects through separate programs, and 32 percent (12) awarded funds through one program for all eligible activities. Eighteen percent (7) used both approaches.

States that restricted applications to certain activities did so to encourage proposals for these activities or ensure that at least some State funding was available to support activities the State deemed worthwhile. States usually allocated HOME program funds to these activities in advance, indicating the activity's relative importance to the State's affordable housing goals. States also established separate programs to match program administrative requirements to already-built capacity in existing agencies; e.g., a State may have assigned responsibility for a tenant-based rental assistance program to a public housing authority that already administered the Section 8 housing certificate and voucher program.

As Table 6.4 shows, States with separate programs were generally urban east coast States and midwest States with small rural pockets. With two notable exceptions (California and New York) States that invited proposals for a range of activities were generally States with relatively small allocations of HOME funds and small program staffs. A number of States reported that the lower administrative costs associated with running one HOME program as opposed to several was an important consideration in choosing this method of allocation. Another reason States chose to use this method was uncertainty over potential demand. However, even in States that chose this method, it was not unusual for the program administrators to make advance determinations of what percentage of funds would be used for given activities. If these advance determinations did not accurately reflect applicant demand, States could shift funding accordingly.

Table 6.4
State HOME Funding Allocation Methods

Allocation Method	Number (name) of States using this method exclusively	Number (name) of States using this method in combination with formula distribution
A. Programs restricted by activity	13 Florida, Georgia, Illinois, Kansas, Maryland, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oregon, Rhode Island	6 Maine, New Hampshire, New Jersey, Pennsylvania, Tennessee, Virginia
B. One program for all eligible activities	10 Alabama, California, Colorado, Delaware, Indiana, Minnesota, Montana, New York, South Carolina, South Dakota	2 Vermont, Wyoming
C. Combination of A and B (i.e. one program restricted by activity *plus* one program permitting several or all activities)	4 Utah, Idaho, West Virginia, Louisiana	3 Arizona, Kentucky, Texas

Source: State Administrators' Survey

Project Selection. We asked States to describe the way they selected projects for funding. We identified three competitive methods and two non-competitive methods. The three competitive methods included: (1) competition with "windows", i.e. specific periods throughout the year when applications are accepted; (2) windows competition with restrictions on types of projects that can be proposed; and (3) open competition (applications are accepted at any time, but the State usually waits until it has a certain critical mass of applications before making funding selections). The noncompetitive methods included a first-come, first-served approach, and "state-nominated" projects in which a State agency identifies a potential project sponsor and works with the sponsor to develop a fundable project.

The frequency with which these methods are used is reported in Table 6.5. (Respondents could select more that one of these methods if they used more than one). As the table shows, competitive methods dominate. Of the 35 States responding to this question, 71 percent (25) selected projects through a formal competitive process with "windows" either for all program activities (13), or at least one activity (12). Five States used a windows competition that restricted the types of projects that could be selected. Seven States used formal open competitions; 3 for at least one activity, and 4 States used this mechanism for all activities.

Table 6.5
Number of States Allocating HOME Funds Through Competitive and Non-Competitive Mechanisms

Mechanism	Total	All Activities	Some Activities
COMPETITIVE			
Windows	25	13	12
Windows with restrictions	5	4	1
Open	7	4	3
NON-COMPETITIVE			
First-come, first served	6	1	5
State selection	6	0	6

Source: State Administrators' Survey
Note: N=35. Respondents could respond to more than one of these categories.

Noncompetitive methods were used less frequently. Six States distributed funds on a first-come, first-served basis. These were usually CHDO operating expenses/capacity-building programs under which a CHDO applied directly to the State managing agency for funds and the agency awarded a grant so long as the applicant met program requirements.

Six States nominated projects, but in no case do they do so for all activities. State nomination meant that the administering agency actively solicited project sponsors to develop a particular type of project. For example, the administering agency in Colorado targeted areas within the State with unmet housing needs, usually rural areas. The agency would identify a project sponsor to undertake a project that addresses some affordable housing need, and work with the sponsor to develop a proposal for HOME funding.

The selection of one or more of these methods had some effect on the allocation of funding among HOME activity types. If States established a single program covering all activity types, or open application windows that did not restrict project eligibility to a single activity type, application volume and quality determined the level of funding for a given HOME activity. Under noncompetitive methods, or where States restricted programs to only one activity type, the administering agency determined how much funding would go to each activity. However, State administrators using this method reported that their funding decisions were influenced by applicant demand as shown by the volume of applications received in previous years.[35]

[35]Of course, this demand can in turn be influenced by applicant calculation of funding chances given the amounts of funds allocated. We have no way of untangling these effects.

Geographic Distribution of Funds

In the preceding section, we noted that some States have chosen to create programs that restrict project applications to a subset of HOME-eligible activities. States also could restrict the geographic areas that are eligible to submit project applications. Whether States did so is of particular interest because of a difference between the HOME program and the CDBG program, which was (and still is) often used by States to fund affordable housing. The CDBG program bars States from funding units of general local government that also are entitled to receive their own formula allocations of CDBG funds. In effect, this means that State CDBG projects are heavily concentrated in nonmetropolitan areas. But even though HOME also allocates funds by formula to local governments, the program allows States to fund projects located anywhere within the State.

We asked State administrators whether they restricted HOME project eligibility to only certain areas of the State, and found widespread departures from the CDBG model. Forty-one percent of States adopted State-wide eligibility for all programs, 38 percent limited eligibility to areas outside local PJs, and 21 percent adopt State-wide eligibility for some programs, but restrict eligibility for others. In other words, 62 percent of States accepted applications for projects located in local PJs for at least one of their programs.

As expected, program administrators deciding to exclude projects from local PJs did so because they wished to target HOME funds to areas otherwise unable to access the program. The majority of States distributing funds outside of local PJs were southern and upper midwestern States with large rural areas. Of the 21 percent using the combination approach, one State reported that it funded projects in a local PJ only if the local PJ did not fund the same type of activity as the State HOME program. Another only funded projects in a local PJ if the local PJ used its own HOME funds as a 50 percent match for the requested amount. Other States in this group allocated funds statewide only for certain activities, usually those for which there was the highest demand.

In addition to accepting project applications only from areas outside local PJs, project selection systems can be tailored to help promote project locations in hard-to-serve areas of States. In some States, competitive project award methods have meant that few HOME funds were awarded to projects in areas with limited interest or capacity among potential State recipients, subrecipients or other project sponsors. Use of point-scoring systems that reward applications from hard-to-serve areas were one way of ensuring that these projects receive some competitive advantage. As the preceding discussion noted, State nomination of project developers was another way to generate fundable applications from hard-to-serve areas.

Compliance with Program Requirements

Like local participating jurisdictions, States must comply with a range of program requirements, including federal regulations that apply to all HUD programs and regulations unique to HOME. In this section we identify the federal and HOME requirements that were cited most often as problems by program administrators. We also discuss program administrators' perceptions of their ability to comply with two requirements specific to HOME—the 15 percent CHDO set-aside and the 25 percent match.

The HOME program regulates housing quality standards, allowable income and rent levels of residents, project costs that may be covered with HOME dollars, and ceilings on per-unit subsidies. In an open-ended question format we asked HOME administrators to comment on particular requirements that cause compliance difficulties and future changes they would like to make to the program. The most frequently cited responses are presented in Table 6.6. In most cases States gave multiple responses.

Table 6.6
State Administrator Criticisms of HOME Requirements

Criticism	Number of responses
Maximum rents are too low	18
Davis-Bacon requirements are too cumbersome	17
Match requirement is too strict	9
HOME affordability requirements and rent calculations should be compatible with the Low Income Housing Tax Credit and Section 8	9
Federal funds are insufficient to cover long-term monitoring costs	8
The environmental review process is too cumbersome	6
Income verification procedures should be more flexible	3

Source: State Administrators' Survey

As Table 6.6 shows, States most frequently criticized Davis-Bacon wage requirements and project rent restrictions (reported by 47 and 45 percent of States, respectively). Administrators' chief complaints about Davis-Bacon was the burden of completing all the necessary paperwork and the additional cost to the project. A number of administrators reported that local wage rates are significantly higher than the federal requirements. Therefore the State's compliance with Davis-Bacon gave no substantive advantages to workers, but created a burden for the States to complete all the required paperwork. Nearly all States that criticized Davis-Bacon reported that either project sponsors do not apply for, or the State will not commit project funds to, projects with 12 units or more because that would trigger Davis-Bacon requirements.

Administrators' chief complaint about project rent restrictions was that the levels are set so low that a project cannot generate an adequate cash flow without subsidies deeper than they would prefer to extend. In some cases low rents dampen developer interest in producing multifamily projects in some of the neediest areas of the State.

It is generally true that States with large HOME allocations and extensive experience administering other federal and State programs less often report difficulty in complying with certain administrative requirements such as the environmental review process and Davis-Bacon. However, other than these two examples State characteristics did not appear to significantly influence State administrators' perceptions about compliance difficulties.

A number of administrators expressed concern about the ability of the State to finance the long-term monitoring and compliance requirements of HOME. According to HOME statutes, project funds must be fully disbursed within a period of five years, but the monitoring and compliance requirements for certain projects may extend as long as 20 years after project completion. States may not escrow their project funds for use in future years and many States distribute HOME funds as grants or forgivable loans, rather than using the funds as loans to generate future revenue. (Even still, only 10 percent of this revenue could be used to fund administrative costs.) Therefore, other than the HOME allowable allocation for administrative fees most States do not have a source of funds, or a plan in place, to cover these long-term expenses.

CHDO Set-Aside

Most States reported they had no difficulty meeting the 15 percent CHDO set-aside and in many cases they reported exceeding the 15 percent. This result contrasts with 28 percent of States that reported difficulty in meeting the set-aside requirement in the first year of the program.[36] The States that continued to report difficulty in meeting the CHDO set-aside were rural States that reported a dearth of nonprofits generally or of nonprofits that qualify as CHDOs.

Based on program administrators' comments, we attributed the changed attitude toward the CHDO requirement to several factors. First, as the nonprofit housing development community has become more familiar with HOME, more nonprofits have qualified as CHDOs, increasing the demand for CHDO set-aside funds. Second, CHDOs have become more skilled at developing quality proposals, so more CHDO-sponsored projects are selected for funding. Third, HOME allows State and local participating jurisdictions to use up to 5 percent of HOME funds to make grants for CHDO capacity building and operating expenses, and up to 10 percent of the CHDO set-aside amount can

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[36] *First Year of HOME*, supra note 2, at 123.

be used for predevelopment loans. In recent years, a number of States have used these special provisions to assist CHDOs, and several States reported that the result has been an increase in the quality and capacity of CHDOs.

Match Requirement

By law, each State and local participating jurisdiction must make contributions to housing that qualifies as affordable housing under the HOME program. This contribution must total not less than 25 percent of the funds drawn from the PJs Federal HOME account in any fiscal year. However, recognizing the financial burden the match requirement places on fiscally-strapped State and local PJs, the law provides for waiver of the match requirement. HOME allows full waivers to severely-distressed jurisdictions that meet two of three distress thresholds contained in the law, and 50 percent waivers to jurisdictions that meet one of the thresholds. The match also can be waived in cases of a Presidentially-declared disaster (Hurricane Andrew in Florida and Louisiana, for example).

Most State administrators reported no difficulty in meeting their match requirement; 26 of the 38 State respondents said this. Of the 9 State officials reporting difficulty meeting the requirement, 3 had received either a full or partial waiver. Of the 26 States reporting no difficulty, 4 had either a full or partial waiver. The most common sources of matching funds were mortgage revenue bond programs (i.e. the difference between the MRB interest rate and market rate) and State housing trust funds. Some States allocated extra points in the scoring process to project applicants that brought eligible sources of match to the project.

HOME Program Impacts

This section discusses how State administrators view the effects HOME has had on their efforts to provide affordable housing and their perception of the efficacy of HOME in reaching the States neediest populations and areas. State administrators were asked to list the most beneficial effects of the HOME program. Their comments address four main areas–program funding, targeting, project sponsor capacity and partnership building, and program flexibility–and can generally be summarized into four statements contained in Table 6.7.

Program Funding

Twenty-four States (63 percent of the respondents) commented that the greatest benefit of HOME was that it increased the amount of funding available for affordable housing. It did so either because it funded activities for which there were limited or no resources or because, combined with other resources, it stretched existing funds further. Additionally, a number of interviewees reported that HOME allowed project developers to leverage both private and public sources of funds. Most States have used at least some portion of their HOME allocation to expand existing programs, although a significant number have also used HOME funds to begin new activities not previously funded by the State. Few States reported that they substituted HOME funds for existing sources of funds for housing, particularly CDBG. In most States the level of CDBG funding for housing has remained more or less constant or increased since the advent of the HOME program.[37]

Table 6.7
HOME Administrators Responses on Most Beneficial Effects of HOME

Response	Number of responses
HOME has increased the amount of funding available for affordable housing	24
HOME allows States to reach very low income populations	14
HOME has increased the number and improved the capacity of CHDOs and nonprofits to undertake affordable housing projects	14
HOME grants States flexibility to respond to local housing needs by funding a range of activities	6

Note: Responses were coded from program administrators' responses an open-ended question
Source: State Administrators' Survey

Targeting

Fourteen States (37 percent of all respondents) said that HOME allowed them to reach very low income populations. These respondents attributed this result to two major factors. First, HOME regulations dictate the income groups projects must serve and by definition these are low and very

[37] A decrease in CDBG funds for housing does not necessarily mean that State efforts to provide decent, affordable housing will suffer. In at least two cases where States decreased the amount of CDBG funds for housing, they did so in order to fund infrastructure projects in communities that were targeted as revitalization zones. HOME funds were targeted to these same projects, arguably improving overall the quality of the housing and surrounding neighborhood.

low income households. In addition, a number of States imposed even stricter income guidelines on HOME than the federal regulations and serve populations with incomes even lower than required by HOME. Second, because most States allocated HOME funds in the form of grants or forgivable loans, the debt service on HOME projects was lower than projects previously financed through loans.

We asked representatives of States whether they used housing subsidies to target particular populations or communities. Of the 33 States with responses, 12 used a combination approach, targeting both populations and communities. Representatives of thirteen States reported their approach was primarily to target populations. These respondents said their program goal was to reach particular populations (very low income groups, special needs populations, homeowners, for example) regardless of where they live. To achieve this goal States generally placed no particular geographic limitations on where projects were funded. Some States granted extra points in the scoring process to projects that served certain populations. Four States responded that their primary approach was to target communities. All four are States with large rural populations.

States that reported targeting rural communities used several specific strategies to increase the amount of HOME funds reaching rural areas.[38] Five of them set-aside a certain percentage of HOME funds for projects in rural areas. Ten States granted extra points in the application scoring process to projects proposed in rural areas. Nine reported that the managing agency was proactive in soliciting proposals from rural areas and did intensive marketing of the HOME program and trainings for project sponsors in those areas.

Approximately half of the States reported that they had not been as effective as desired in reaching the neediest areas of the State. Two major reasons were given. The first was that there were no CHDO, nonprofit or other developers located in some areas of the State, or at least no developers with the capacity or skill to implement HOME projects. Not surprisingly, most States that made this comment were States with large rural populations. The second reason, cited less frequently, was the lack of support from the local government for HOME affordable housing projects. In States that require project sponsors to apply for HOME funds through local governments (CDBG model), lack of local government support cuts off any opportunity project sponsors have to obtain HOME funds. The same may also be true in States where project sponsors apply directly to a State agency for funds since a number of States require that project applicants submit a letter of support from their local government along with their HOME application. Some States refuse to commit funds to projects if the project applicant is unable to obtain this letter.

[38]We did not ask respondents to define their use of the term "rural." We understand respondents intended the term to mean low population areas outside cities and large towns.

Project Sponsor Capacity and Partnership Building

Fourteen States (37 percent of the respondents) said that HOME had increased the number and improved the capacity of CHDOs and nonprofits to undertake affordable housing projects. Interviewees cited the CHDO 15 percent set-aside, increased familiarity with HOME regulations, improved skills developed over time, and partnerships with for-profits developers as key reasons why CHDOs and other nonprofits had become such major actors in the HOME program.

In a related question, interviewees were asked to describe ways that new actors had become involved in housing service delivery, or existing actors had interacted with one another in new ways, as a result of HOME. Twelve States reported that there were more for-profit/nonprofit partnerships as a result of HOME. Twelve commented that the number of CHDOs in the State had increased. Nine stated that non-housing nonprofits had expanded their activities to housing. Five States reported that the administering State agency was much more involved in providing technical assistance, especially to CHDOs and nonprofits, than with other federal or State programs. This implies that the quality of CHDO and nonprofit applications and project implementation had improved because of the administering agency's involvement in guiding them through the process. Some interviewees commented that providing this type of technical assistance had placed a significant burden on their staff's ability to handle requests for assistance and continue their primary task of managing HOME.

Program Flexibility

Six States responded that HOME grants had increased States flexibility to respond to local housing needs by funding a range of activities. Because States may fund a range of activities and because the administrative structure of HOME gave them significant control over their programs, States were easily able to alter their existing programs or funding levels to respond to changing local housing needs.

METHODOLOGICAL APPENDIX

This report is the product of a third and final round of data collection and analysis conducted for the national evaluation of the HOME program. This methodological appendix details the report's data sources. It also describes the methods employed to compile and analyze information from different sources, to the extent such methods are not described in the main body of the report. Descriptive statistics for the rental universe and the rental sample are also discussed.

The report uses data from three main sources:

- *HUD's Cash/Management Information System.* HUD's Cash/Management Information System (C/MIS) is the single most comprehensive source of data on the HOME program. As the Department's main tool for monitoring HOME since the program's inception, C/MIS includes data on all HOME-funded projects, all HOME-assisted units, and all HOME program beneficiaries. This report relies extensively on data entered on C/MIS through the end of federal fiscal year 1996, i.e., September 30, 1996.[1] It uses data both project-level data (e.g., data on the types of activity funded by local jurisdictions), as well as unit/beneficiary level data (e.g., information on resident incomes).

- *Urban Institute's Underclass Database.* The Urban Institute Underclass Database is a compilation of housing and population data from the 1970, 1980 and 1990 U.S. Census. These data are configured to adjust for changes in Census Tract boundaries over the 30 year period, permitting analysis of change in fixed areas over time. The Underclass Database was used for this report primarily in the discussion on the location of HOME program housing in Chapter 5.

- *Surveys conducted specifically for the HOME program evaluation.* The final round of the HOME evaluation uses information from a series of specially-designed jurisdiction-, project-, and beneficiary-level surveys. These surveys were conducted either in-person, or by telephone with corresponding jurisdiction, project, and beneficiary samples.

The discussion below describes in more detail the surveys conducted specifically for this final round of the HOME program evaluation. It summarizes each of the surveys, reviews the methods

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[1]The report's analysis of C/MIS data therefore excludes activity subsequent to September 30, 1996. The report also excludes activity reported on the new Integrated Disbursement and Information System (IDIS)—which the Department started to implement as a replacement for C/MIS in mid-1996.

used for sample selection, and presents the outcome of the survey data collection effort, i.e., response rates.

Survey Instruments

The final round of the HOME evaluation involved 18 separate surveys which together provided data on how the program is being administered at the State and local level; who is participating in its implementation; what types of housing units, households, and neighborhoods are being assisted; and at what cost to various levels of government. These surveys are summarized in Table A.1 and detailed below.

Table A.1
Survey Instruments

State PJs

1. State Program Description Form
2. State HOME Program Overview
3. State Program Discussion Guide

Local PJs

4. Program Officials Survey
5. Rental Housing Program Questionnaire
6. Developer For-Sale Program Questionnaire
7. Purchase/Rehab Program Questionnaire
8. Lender-Model Program Questionnaire
9. Owner-Occupied Rehabilitation Questionnaire
10. Tenant-Based Assistance Program Questionnaire

Project Surveys

11. Rental Housing Developer Survey
12. For-Sale Housing Developer Survey

Beneficiary Surveys

13. Rental Housing Residents Survey
14. Homebuyers Survey
15. Owner-Occupied Rehab Survey
16. Tenant-Based Assistance Rental Survey

State PJ Surveys. Information on State HOME programs was compiled with three separate survey instruments.

- *State Program Description Form.* This instrument was completed by researchers from printed documentation of State HOME programs (e.g., program guides, budgets, and application criteria). The form was designed to capture information on the types of activity funded by States, the procedures used by States to make funding decisions, and the mechanisms used by States to administer HOME-funded programs.

- *State HOME Program Overview.* This instrument was administered by telephone with lead State HOME program agencies—i.e., with official(s) at the agencies designated to oversee State programs. The interview was designed to collect more detailed information on the State profiles compiled from printed materials, including recent (or anticipated) policy or programmatic changes and the impact of HOME program regulations.

- *State Program Discussion Guide.* This instrument was administered by telephone with the managers responsible for different HOME-funded programs at the State level. The number of times this survey was administered varied by State depending on the diversity of each State's HOME-funded activities.

Local PJ Surveys. Surveys administered with local PJ officials fall into two categories: one instrument to provide an overview of local program implementation; and, a series of six instruments to capture details on implementation of different types of local HOME-funded program.

Program Officials Survey. This survey was administered in-person with senior officials who oversee housing policy, including implementation of HOME, in a sample of local Participating Jurisdictions. The survey addressed the following issues:

- HOME Program Funding Decisions—local process for funds allocation, the impact of consolidated planning and HOME program requirements on funding decisions.

- HOME Effects On Affordable Housing Funding—substitution of CDBG housing expenditures, impact of HOME match requirements.

- Administration and Housing Partnerships—administrative structure and capacity, inter-agency relationships.

- Program Compliance—agency responsibilities, possible changes in HOME program requirements.

- Neighborhood Targeting—use of HOME funds to revitalize neighborhoods.

- Summary Assessment—overall HOME program impacts, possible changes to U.S. housing policy.

This in-person survey was supplemented by two stand-alone data collection forms distributed to respondents prior to site visits: *Program Sources and Uses*, to record jurisdictions' allocation of housing resources among programs in the most recently completed local fiscal year; and, *Program Match, 1994*, to record sources and amounts of local HOME match in FY 1994.

Program Questionnaires. Questionnaires were administered in-person to agency staff with direct operational responsibility for particular HOME-funded programs. As noted above, separate questionnaires were designed for each of six program activity types:

1. Rental programs—i.e., HOME-funded acquisition, rehabilitation, and/or new construction of rental housing.

2. Developer for-sale programs—i.e., HOME-funded acquisition, rehabilitation, and/or new construction of housing by a third-party for sale to an eligible homebuyer.

3. Purchase-rehab programs—i.e., direct HOME program assistance for homebuyers to purchase and rehabilitate their homes.

4. "Lender-model" programs—i.e., direct HOME program assistance for homebuyers to purchase (but not rehabilitate) their homes such as down-payment or closing cost assistance.

5. Owner-occupied rehabilitation programs—i.e., direct HOME program assistance to existing homeowners to rehabilitate their homes.

6. Tenant-based rental assistance programs—i.e., HOME-funded rent assistance.

These questionnaires assumed that jurisdictions fund specific "program(s)", even though some fund projects, and some do both. For example, a PJ may set aside a block of HOME funds for its rental "program", accept proposals for it, and commit funds until the amount set aside is exhausted. Alternatively, a PJ could advertise for "HOME-eligible projects" or "CHDO projects" and let demand drive the allocation of funding among rental, home ownership, or other types of HOME-eligible projects. Where jurisdictions did not fund identifiable "programs", researchers were instructed to treat questions as they applied to the collection of rental projects funded by some RFP process; i.e., to treat "projects" as if they were supported by a "program."

One questionnaire was administered (as applicable) for each of the six program areas, even if PJs funded more than one "program" in each area. Where there were major differences across projects or programs for each type of activity, field researchers noted the nature of those discrepancies.

The goal of the program questionnaires was to gather information on "active" programs/projects. Therefore, forms were completed for any programs/projects to which HOME funds had been committed in the PJ's current program year, or to which funds had been committed in the past, and were likely to be in the future. Questionnaires were not completed for programs/projects for which HOME funds had never been committed, or for which HOME funds had been committed in the past, but were not in the current program year (nor expected to receive commitments in the future).

Each questionnaire addressed the following issues:

- Program compliance—procedures for monitoring compliance, difficulty of different HOME program requirements.
- Cost—importance of different factors to program development/delivery cost, public subsidy levels.
- Sponsors—characteristics of program sponsors (buyers or developers), efforts to market program to different project sponsors.
- Beneficiaries—selection and characteristics of program beneficiaries (tenants or buyers).
- Neighborhood Targeting—spatial policies, factors influencing project location, program coordination with other neighborhood-oriented activities.

Project Surveys.

These surveys were administered in-person to owners of rental housing and developers of for-sale housing projects. The surveys addressed the following issues:

- Property-Owner Characteristics—type of developer/owner, sponsor's other business activities, sponsor's prior experience with publicly assisted housing development.
- Property & Neighborhood Characteristics—reasons for development of sample project, rationale for activity in particular neighborhood, factors in development cost,

comparison of property, project rents/sales price, and residents with others in neighborhood.

HOME Program Participation—availability of alternatives to HOME funds, procedures for monitoring compliance with HOME requirements, impact of HOME requirements on project operating costs, impact of HOME requirements on number of HOME units and HOME cost per unit.

Beneficiary Surveys. Beneficiary surveys generated information about the residents of HOME-assisted units. Conducted by telephone, the surveys served two purposes: collection of data on household benefits, including HOME-induced improvements in unit and neighborhood quality; and, collection of information on project costs for a subset of the beneficiary sample.

Separate telephone surveys were administered for the following groups of residents:

1. Residents of HOME-funded rental housing projects.

2. HOME-assisted homebuyers.

3. Homeowners who received HOME assistance to rehabilitate their homes.

4. Recipients of HOME-funded rent assistance.

Survey Samples

The survey instruments described above all were administered to a specially selected sample, with the exception of the State PJ surveys which were administered for all State programs, i.e., the universe of State HOME programs.

Specifically, the samples employed for this data collection effort were as follows:

- Local PJ Sample—a sample employed for the Program Officials Survey and (as applicable) six Program Questionnaires.

- Project Samples—separate rental housing and homebuyer samples employed for the Project Sponsors Survey.

- Beneficiary Samples—separate samples for each of the beneficiary survey: 1) rental housing residents, 2) homebuyers, 3) homeowners receiving owner-occupied rehabilitation assistance, and 4) recipients of HOME tenant-based rental assistance.

The project and beneficiary samples all were derived from the 40 local PJ sample. The reasons for this approach were primarily logistic. Project-level data collection involved a combination of in-person interviews and extraction of information from PJ files. Therefore, sampled projects had to be located in the same communities visited on-site for the Program Officials Survey and Program Questionnaires. Further, although beneficiary-level surveys were conducted by telephone, the required contact information could be assembled most efficiently during on-site discussions with program officials and project sponsors.

Local PJ Sample. The sample of 40 local participating jurisdictions is the same as that used in earlier rounds of data collection—see Table A.2. The sample was first and foremost selected to represent the distribution of HOME grant dollars (in FY'92), and therefore includes the Participating Jurisdictions with the highest grant amounts. Further, the sampling frame was sorted to ensure variation according to a) type of jurisdiction (metro city, urban county, and consortia), and market type. A further description of the sampling method and universe for this sample is detailed in the OMB submission for the first round.[2]

Table A.2
Local PJ Sample

Allegheny County, PA	Los Angeles County, CA
Arecibo, PR	Lynwood, CA
Baltimore County, MD	Middlesex County, NJ
Boston, MA	Muncie, IN
Brevard County, FL	Nashville, TN
Camden, NJ	New York, NY
Chesapeake, VA	Norfolk, VA
Chicago, IL	Oklahoma City, OK
Columbus, OH	Philadelphia, PA
Dallas, TX	Riverside County, CA
Detroit, MI	Rochester, NY
Greensboro, NC	Salt Lake County, UT
Harris County, TX	San Diego, CA
Huntington Park, CA	San Juan, PR
Kern County, CA	San Mateo County, CA
Knoxville, TN	Schenectady, NY
Lawrence, MA	Somerset County, NJ
Lincoln, NE	St. Louis, MO
Long Beach, CA	Summit County, OH
Los Angeles, CA	Toledo, OH

[2]See: Evaluation of the HOME. Investment Partnerships Program: Round 1 OMB Approval Package.

Project Samples. Two project samples were employed for the Project Sponsor Survey and Project Worksheets.

The universe for the project samples consisted of a subset of HOME-assisted projects, as detailed below. Most importantly, the universe consisted only of projects for which there was a third-party sponsor (i.e., an agency, partnership, corporation, or other organization responsible for carrying-out the project) or projects with an individual owner who was *not* the project's sole or principal resident. The universe therefore incorporates:

a) Projects funded as rental housing, that is projects with no owner-occupants or projects with an owner occupant and four or more rental units.

b) Home ownership projects with three to four HOME-funded units. We used the project sample as the basis for the developer interviews.

c) Home ownership projects in which there was a third-party sponsor.

Sampled projects therefore excluded one to two unit projects in which the owner is the same as the project resident—i.e., home ownership projects without a third-party sponsor.

Two additional factors were used to delimit the respondent universe for the project sample: First, the universe was limited to projects funded by local (as opposed to State) participating jurisdictions. Second, the universe incorporated only completed projects, that is projects recorded as complete in HUD's Cash/Management Information System.

The sample design required that projects with larger numbers of units have higher probabilities of selection. Smaller properties are likely to have lighter rehabilitation, shorter compliance periods, and owners with lower rate of return requirements. To adjust for the highly uneven distribution of property sizes, we used the number of HOME-assisted units at a project as a "measure of size" for sampling purposes. This ensured that an adequate number of projects with large budgets and numbers of residents was included in the sample.

The main factors that affect cost, subsidy, and benefits, and therefore the main factors of potential interest as stratifiers, can be divided into five categories:

a) cost and income variables that affect all properties within a jurisdiction;

b) local policies that pertain to maximum cost, subsidy per unit, and benefit levels that *may* vary across types of projects within jurisdictions;

c) national regulations that *certainly* vary across types of projects (i.e., rental and homeowner) within jurisdictions;

d) project characteristics; and,

e) project sponsor characteristics.

Because the 40 PJ sample captures variation in local market conditions across jurisdictions (item a), and because local policies are expected to be randomly distributed across jurisdictions (item b), departures from a simple random sample were not warranted to ensure adequate representation of these characteristics. Stratification potentially was warranted to accommodate adequate representation with regard to the other factors, most importantly stratification by assistance category: that is, rental versus homeownership projects.

There were two analytic reasons for separate consideration of rental and homeownership assistance projects. First, because different HOME rules and regulations apply to these two types of project (item c), there could be a considerable differential impact on costs, subsidies, benefits. Second, there also is a potential for considerable variation between rental and homeownership projects in terms of the financial incentives and target return rates for owners or sponsors (items d and e). There was insufficient justification for further stratification of the sample (e.g., by type of sponsor) because of the high percentage of projects in the 40 PJs that were sampled.

The sampling frame was constructed using data from HUD's Cash/Management Information System (C/MIS). Specifically, rental projects included:

a) projects reported in the C/MIS on the Rental Housing Project Completion Report (HUD-40097), that is projects with no owner-occupants plus projects with an owner occupant and four or more rental units;

b) projects reported in the C/MIS on the Home Ownership Assistance Project Completion Report (HUD-40096) with three or four HOME-assisted units upon completion, only one of which is occupied by a homeowner.

In terms of home ownership projects, the sampling frame included:

a) projects reported in the C/MIS on the Multiple-unit Home Ownership Assistance Project Completion Report (HUD-40096-M);

b) projects reported in the C/MIS on the Home Ownership Assistance Project Completion Report (HUD-40096) with: one or two HOME units "upon completion", HOME not only used for down-payment assistance, and a third-party sponsor, i.e. not an "individual" or "other" owner indicated on C/MIS set-up.

The target was to collect data on 300 projects—a sample of 200 rental projects and 100 homebuyer projects. To meet this target we over-sampled, assuming an 80 percent response rate.

Beneficiary Samples. The universe for the beneficiary samples included all residents of HOME-assisted units. As such, it excluded residents of HOME-assisted properties if they resided in units that have not been assisted directly with HOME funds.

The sample of beneficiaries was stratified into the following four groups. (The target number of completed surveys is indicated in parentheses). The groups are:

- residents of rental housing projects (300);
- home purchasers (200), including purchasers, only (100), and households purchasing and rehabilitating properties (100);
- owner-occupants assisted with rehabilitation funds (100); and
- tenants receiving tenant rental assistance (200).

Each of these samples involved separate sampling procedures:

1. *Residents of rental housing projects.* These residents were selected from the rental project sample (see discussion above). A simple random sample of units was drawn from the rental project sample, and contact information for the residents of those units collected from local agencies and/or project sponsors.

2. *Home purchasers.* These residents consisted of two groups:

   a) Purchasers of units in sampled third-party sponsored projects, and homebuyers receiving direct purchase assistance but no assistance for rehabilitation.

   b) Unit purchasers directly assisted by public agencies or subrecipients to purchase and rehabilitate property.

   Contact information for these beneficiaries was drawn direct from the C/MIS.

3. *Owner-Occupants Assisted with Rehabilitation Funding.* These residents were owners of one- or two-unit properties that have received HOME owner-occupied rehabilitation program

assistance. Again, contact information for these beneficiaries was drawn direct from the C/MIS.

4. *Recipients of Tenant-based Rental Assistance.* These residents were sampled from all recipients of tenant-based rental assistance, excluding those residents already sampled in the rental housing project resident sample (i.e., those receiving HOME TBRA and who reside in a sampled HOME-assisted rental unit). Contact information for recipients of TBRA came from the local administering agencies.

The sampling frame was constructed using data from HUD's C/MIS, as verified by staff in the 40-PJ sample. The sampling frame for rental unit occupants and purchasers of properties developed by third parties will be units in the corresponding property samples (1 and 2a, above). The sampling frame for the remaining samples consisted of a simple list of all units (or residents) assisted in the 40 PJs for the corresponding samples. Units (or residents) were randomly sampled from each list.

Response Rates

As demonstrated by Table A.3, the data collection efforts undertaken for this round of the data collection efforts were varied in terms of response rates. For each survey sample, the table indicates the universe from which the sample was selected (for project and beneficiary samples, the universe consisted solely of HOME-assisted projects/beneficiaries in the sample of 40 local participating jurisdictions. The table also indicates the target for each sample survey, and the size of the initial samples selected assuming a (varying) non-response rate. The table's right-hand column shows the number of completed cases completed for each sample.

The clearest successes in term of response rates include sample-surveys conducted on-site with local participating jurisdictions, project worksheets, and project sponsor surveys. These surveys achieved the targeted samples, with two exceptions. One local participating jurisdiction fell out of the survey because damaged sustained in a hurricane precluded a site visit (or alternative telephone survey) during the allotted data collection period. In-person interviews with rental housing project sponsors also fell below the targeted sample, in large part because of difficulties scheduling meetings during site visits. (Individual analyses in the main report may use data for a smaller number of respondents owing to missing data for particular variables).

The response rates for the other surveys fell short of targets. Only 38 States provided data for the State survey instruments. By far the most disappointing response rates were achieved for the telephone surveys of beneficiaries. The latter shortfall resulted from three main factors:

- We encountered significant problems compiling resident information for respondents. For instance, we had anticipated using C/MIS to identify recipients of tenant-based rental assistance, however, due to the paucity of these data, we were forced to rely solely on local jurisdictions to provide beneficiary names. Local jurisdictions were not uniformly able or willing to provide this information.

- A significant portion of the resident information we did compile turned out not to be correct or insufficient to identify telephone contacts. Up to 40 percent of the resident name/address combinations did not yield usable contact information.

- A portion of those residents for whom we did compile complete and accurate contact information declined to participate in the surveys (though this factor was less important than the other two).

As discussed in the main body of the report, the beneficiary sample data were pooled for analysis purposes to offset problems resulting from the disappointing response rates.

Table A.3
Survey Response Rates

Sample/Survey	*Universe (All PJs)*	*Universe (40 PJs)*	*Initial Sample*	*Target Sample*	*Response*
State PJs					
- State Program Overview	50	n/a	50	50	38
Local PJs					
- Program Officials Survey		n/a	40	40	39
Projects					
- Rental Developer Survey	n/a	316	250	200	179
- For-Sale Developer Survey	n/a	134	125	100	119
Beneficiaries					
- Rental Housing Residents Survey	n/a	1694	510	300	85
- Homebuyers Survey	n/a	2910	325	200	47
- Owner-Occupied Rehab Survey	n/a	1897	255	150	116
- Tenant-Based Assistance Survey	n/a	473	255	150	49

Geocoded Project Records

To evaluate the location of HOME projects, we added census geographic identifiers by geocoding the addresses of 47,246 out of 54,800 projects in HUD's C/MIS database. This allowed us to match the C/MIS project records with tract-level data from the 1980 and 1990 US Census. The merged data includes information on incomes, poverty status, and racial/ethnic composition. The success rate for geocoding was 86.2 percent overall. Rates for each project type are given in the following Table A.4.[3]

Table A.4
Success Rate for Geocoding Project Records

Project Type	No. Project Records	No. Geocoded	Percent Geocoded
Rental	6,417	5,156	80.3
Homebuyer	25,586	21,544	85.5
Owner-Occupied Rehab.	22,797	20,546	91.2
Total	54,800	47,246	86.2

[3]Based on prior experience, we expected a match rate of about 85 percent. We probably could have increased the rate to just over 90 percent, but this would have been very costly as it requires a case-by-case review. An examination of geographic identifiers suggests that the non-matches were, for the most part, randomly distributed. The biggest problem with non-matches occurred in Texas, which accounted for a relatively large share of the non-matches (about 16 percent).

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