

**Preserving Affordability and Preventing Displacement in Vine City and English Avenue
in the Face of Major Neighborhood Investment Initiatives:
A Report to the Westside Communities Alliance**

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Overview

The Vine City and English Avenue neighborhoods have become an increasing focus of public- and private-sector attention and planning in recent years.² The development of the new stadium and the substantial public and private sector interest in Vine City and English Avenue have prompted concerns about rising rents and property taxes, the potential displacement of low- and moderate-income residents, and the future income mix of these neighborhoods. Ideally, while the neighborhoods improve, they will be places that provide affordable living opportunities for existing residents, as well as for new families of various income levels. To do this, it will be important to consider a variety of policy tools and programs that aim at preserving and creating long-term affordable housing, for both existing and new households. Unless such measures are put in place quickly, and before land values have escalated too far, many of the improvements in the neighborhoods will be unlikely to benefit existing residents and the future of the neighborhood may become one that merely reconstructs the historic economic segregation that has been so endemic in Atlanta, albeit in different locations.

The low incomes of many existing residents and the low property values in the area make these neighborhoods highly susceptible to speculation, rapid redevelopment, and quickly rising land values. Based on data from the City of Atlanta's Strategic Community Investment Report, the median tax-appraised single-family home value was about \$56,000 in 2010 (City of Atlanta, 2013). Property values will not remain low as developers and others respond to the growing interest and speculation in the area, which in turn could lead to significant increases in property taxes and rents. In turn, these increased housing costs could put a severe strain on existing households and potentially displace long-term residents. Increases in rents and home values

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² These include, in addition to other community-based activities, a \$15 million commitment of funding from the Westside Tax Allocation District, a \$15 million commitment from the Arthur M. Blank Foundation, monies being raised by the Westside Futures Fund, and development activities by the Fulton County/City of Atlanta Land Bank Authority, the Atlanta Housing Authority (through its recent Choice Neighborhoods grant), and other local agencies.

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could also make it difficult to attain some long-term mix of incomes in the area that will allow a broad spectrum of families to benefit from development occurring in the area.

City governments can deploy an array of policies and programs to preserve and expand affordable housing in areas like the Westside. Some of these will be useful in helping current residents to remain in their neighborhoods as land values rise. However, many of these programs include affordability provisions that expire after a given period. As a result, efforts to ensure that Vine City and English Avenue retain a diverse mix of incomes going forward must include initiatives that provide for long-term rent or resale restrictions to ensure that future low- to moderate-income residents will have access to the benefits of revitalization.

A strategy for preserving the affordability of these neighborhoods in the near term and over the long term should include components that:

- Preserve the existing supply of subsidized and “naturally occurring” affordable rental housing
- Expand the supply of affordable rental housing
- Minimize any increases in housing costs for existing homeowners and enable them to maintain their homes
- Provide affordable homeownership options for existing and new residents

Preserve the Existing Supply of Subsidized and “Naturally Occurring” Affordable Rental Housing

Vine City and English Avenue have relatively few existing subsidized rental units, though more are located to the south between MLK Jr Drive and Abernathy Boulevard. Most developments with affordable units are mixed-income and were constructed using Low-Income Housing Tax Credits (LIHTCs). It is unclear how many rent-restricted units have been set aside in these developments. Subsidized multifamily units in Vine City and English Avenue are listed in Table 1.

Table 1. Subsidized Multifamily Developments

Development	Units
Magnolia Park Phase I (60 Paschal Blvd)	400 mixed-income units, 1998 LIHTCs
Magnolia Park Phase II (777 Magnolia Way)	450 mixed-income units, 1999 LIHTCs
M Street Apartments (950 Marietta Street)	308 mixed-income units, 2003 revenue bond
Gateway Apartments (370 Northside Dr.)	261 units, 2002 LIHTCs
Courtyard at Maple (55 Maple St.)	182 mixed-income units, 1992 LIHTCs
Quest Village (Rock St.)	68 supportive housing units, 2008-2014

Sources: Atlanta Housing Authority, 2016; Georgia Department of Community Affairs, 2015; Georgia Department of Community Affairs, 2007; Golden Holley James, 2014; Quest Community Development Organization, 2016.

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Affordability restrictions on LIHTC units in Georgia have a maximum lifespan of 30 years, and last longer than most other mandatory set-asides for affordable units. For example, tax-exempt bond financing in Georgia only requires developers to set aside affordable units for 15 years. The affordability requirements for the rent-restricted units in these developments will begin to expire in 2022, six years from now. At the same time, there are no project-based Section 8 housing developments or Section 8 moderate rehabilitation developments in these two neighborhoods. With a population of approximately 6,200 people in 2010, preserving the rent-restricted portion of these units is important but must be supplemented with other strategies.

As subsidized properties approach their 30 year mark, it will be important to balance maintaining the physical quality of these assets and preventing their transition to full market rates. Mission-driven property owners like nonprofit housing developers or the AHA are unlikely to increase rents in the absence of LIHTC rent restrictions; Magnolia Park (AHA), Gateway Apartments, and Quest Village fit this description. On the other hand, it is less likely that for-profit owners will likely to commit to another 15 to 30 years of use restrictions. However, all of these properties will be at least 30 years old and will likely have significant unmet capital needs. Recapitalization through bond financing and 4 percent LIHTCs may be useful in extending the affordable life of the property depending on the availability of other capital and value of market rents at the end of 30 years.

Section 8 Housing Choice Vouchers (HCVs) also play a key role in providing housing to residents of English Avenue and Vine City. Data from HUD indicate that between 6% and 11% of renters in English Avenue and between 20% and 38% of renters in Vine City hold HCVs (U.S. Department of Housing and Urban Development, 2016).

Also at play are single-family and multifamily rental properties that constitute “naturally occurring affordable housing”, i.e., they are not subsidized and have no contractual restriction on rents. Much of the existing housing stock is substandard, and as long as properties remain physically distressed, rents are unlikely to rise precipitously. However, such units are subject to purchase by speculators or to conversion to higher-cost housing.

Distressed properties should be brought up to code both to comply with the law and to provide an adequate living space for the tenant. In order to prevent conversion to high-cost housing, stakeholders could provide landlords with low-interest loans or grants to rehabilitate their units in exchange for long-term affordability restrictions.

Minnesota Housing Rental Rehabilitation and Deferred Loan Program for small to mid-size affordable rentals:

Up to \$25,000 per unit; \$35,000 for single family and duplex units; maximum loan of \$300,000 per project.

Deferred loan with 0% interest, up to 100% forgivable if affordability maintained for full period.

Rental restrictions for a minimum 5 years for loans up to \$100,000; minimum 10 years for loans over \$100,000.

Tenant maximum gross annual income at 80% AMI.

(Minnesota Housing Finance Agency, 2015)

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Another approach that should be considered is to offer landlords agreeing to long-term affordability a significant reduction in property taxes. Rental properties currently do not benefit from homestead exemptions. To equal the playing field for renters, property tax reductions could be granted to properties that provide affordable rents. In Cook County, Illinois, the Class 9 property tax incentive program provides owners of rental properties (7 units or more) who substantially rehabilitate a property with a major reduction in property taxes (Cook County, 2016). In exchange, at least 35 percent of the unit must be affordable for a period of 10 years to renters earning no more than 80 percent of the area median income. Ideally, such programs would be available to owners of all forms of rental property, including single-family homes.

Expand the Supply of Affordable Rental Housing

State and local government should support developers seeking to build affordable and mixed-income developments in English Avenue and Vine City. However, the supply of housing subsidies through federal programs is limited. The amount of LIHTCs for the entire State of Georgia amounted to \$22 million in 2016 (Novogradac & Company, 2016), and the Georgia Department of Community Affairs, which allocates LIHTCs, awarded tax credits to only 11 projects in the City of Atlanta over the five years from 2011 to 2015 (DCA, 2015). It should also be noted that increased attention to fair housing issues, especially through HUD's new Affirmatively Furthering Fair Housing rules, may make it harder to justify funding affordable housing initiatives in distressed neighborhoods unless it is part of a larger community development effort.

A mandatory inclusionary housing ordinance, which would require developers to set aside some portion of newly constructed housing as long-term affordable units, could prove a major vehicle to creating long-term, affordable housing in the community. There is currently a proposal for mandatory inclusionary housing in the City under discussion. Such a policy could have a substantial impact on preserving a mix of incomes in these neighborhoods as they develop.

Another proposal that has been floated across the City is the development of a new bond to fund affordable housing development and preservation. In 2007, Invest Atlanta issued a \$35 million Housing Opportunity Bond in order to fund loans to multifamily developers and nonprofits. Since 2007, the Housing Opportunity Bond Fund has created nearly 2,100 units of housing, but the funds are mostly spent (Invest Atlanta, 2015). Such a bond could provide a flexible source of funding, for both new construction and preservation, funding that could leverage other private and public financing.

Small investor-landlords are sometimes in need of affordable purchase-rehab loans to buy and fix up dilapidated single-family homes or small multi-tenant properties. Most small loan products are geared towards owner-occupiers. A loan product aimed at this market could find significant demand, especially as new small investors are attracted to the neighborhood.

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Interest rates could be tied to the level and/or length of the affordability commitment. Such a program could also build local capacity for residents to engage in rental housing development and property management, which in turn would recycle more resident spending back into the neighborhood. Financing programs could be tied to preferred contractor programs that employ local residents and build up local contractor capacity.

Property tax reductions tied to affordable housing development should also be considered. Invest Atlanta's Lease-Purchase Taxable Bond financing program, which provides large-scale property tax abatements, has been used primarily to fund the development of luxury apartment units in recent years (Trubey, 2014). A much wiser use of such tax abatements would be for the development of long-term affordable housing.

Minimize any Increases in Housing Costs for Existing Homeowners and Enable them to Maintain their Homes

Property tax circuit breakers are a tool aimed at assisting existing homeowners to afford their homes in the face of rising property values. Rising property taxes result in rising housing costs or displacement, particularly in areas like English Avenue and Vine City where current values are very low. There are a variety of homestead exemptions available in the City of Atlanta, including those aimed at seniors. However, as property values rise, the existence of a preexisting exemption can actually result in very larger percentage increases in property taxes, because the taxable value may increase from a very small amount (due to the combination of small initial home values and preexisting exemptions) to what is, relatively, a much larger value. For example, if a senior owns a home worth \$50,000 and has a total homestead exemption of \$25,000, and then her property value increases by 50 percent to \$75,000, her taxable value will increase from \$25,000 to \$50,000, which will cause her tax bill to increase by 100 percent. Thus

King County, WA Limited Income Property Tax Deferral program:

Income-eligible homeowners who have lived in their property for at least 5 years may defer 50% of their taxes, accumulating modest interest. The loan is paid off with the proceeds from the sale of the property.

(King County, 2015)

exemptions, while progressive in a static sense, can result in tax structures for owners of low-cost homes that amplify the tax effects of property value increases.

Therefore, increasing homestead exemptions are not the right tool for responding to rapidly changing home values, especially for owners of low-cost homes. One approach is to limit the rise in taxable value for low-income homeowners to a certain rate, e.g., the consumer price index.

An alternative to a circuit-breaker program that limits increases in taxable value and resulting tax bills is a tax deferral program aimed at lower-income homeowners. In such programs, increases in tax bills over a certain level (e.g., consumer price index) are effectively converted into a low-interest loan against the home that does not have to be repaid until the home is sold or transferred somehow. This allows

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homeowners to stay in the neighborhood if they want to as values rise. However, if they choose to sell (or the property is inherited) the accumulated deferred taxes are paid at that point. It is conceivable that some sort of localized loan program could be developed to effectively defer tax increases until the sale of the property, but this may be logistically challenging.

Additionally, homeowners in these neighborhoods are likely to have limited access to capital for repairing their homes, and may face a choice between remaining in a substandard property and selling their home. Owner-occupied rehabilitation programs are common policies to allow low-income residents to fix up their homes. Atlanta Beltline Inc. has offered forgivable, interest free loans to homeowners to preserve housing quality and retain neighborhood residents in the Beltline Planning Area, providing assistance of up to \$25,000 (Atlanta Beltline Inc, 2016). The loan can be partially forgiven in years 1-5, and completely forgiven after 15 years living in the property. It is not clear what level of funding this program will have into the future, and the program is not accepting applications for 2016. The City's Bureau of Housing also administers the HOME Owner-Occupied Rehabilitation Program, funded by HUD, which provides forgivable loans of up to \$45,000 for home repairs to bring properties into compliance with the Housing Code.

Some repairs can be quite minor, but still represent sizeable costs to low-income homeowners. In these cases, modest home improvement grants, or home repair services in which a nonprofit provides the home repair work (or hires the contractor), may provide a large bang-for-the-buck and not involve the complexity of a loan program.

Provide Affordable Homeownership Options for Existing and New Residents

Affordable homeownership provides a way to protect a family from rising rents caused by gentrification or overall tight rental markets. Fixed-rate mortgages allow families to be more confident about their housing costs for a long-time into the future.

A number of obstacles prevent low-income households from becoming homeowners, including insufficient savings to make a down payment and pay closing costs, tight mortgage markets, and appraisals that come in below the proposed purchase price.

Invest Atlanta's Affordable Homeownership Program provides households at or below 80% of AMI that qualify for a 30-year fixed rate mortgage with \$10,000 towards down payment or closing costs, which is forgivable after living in the home for 5 years. Invest Atlanta's Vine City/English Avenue Home Ownership Assistance Program specifically targets properties in NPU L, providing \$10,000 no-interest loans for qualifying buyers that make under \$63,100 for a one person household. The Beltline Affordable Housing Trust Fund provides assistance for families of one or two people making under 100% of AMI, or up to 115% of AMI for families of three or more people. The trust fund issues a "soft second" mortgage of up to 20% of the property value, which is forgivable after the first 15 years of ownership (Invest Atlanta, 2014).

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Downpayment assistance programs can be very helpful. However, they do not provide the main financing for purchasing a home. Generally banks or mortgage companies do that. Many communities around the country have developed partnerships with particular lenders to market their mortgage product in targeted neighborhoods and develop new products well suited for particular markets or submarkets. FHA lenders are likely to be key in the case of these neighborhoods, as their underwriting standards and downpayment requirements are less onerous than conventional lenders. However, some conventional lenders may play a role as well. One particular challenge in many underserved neighborhoods, especially lately, is the issue of inadequate appraisals. It will be important for lenders seeking to serve these communities to ensure their appraisers are familiar with the community and the efforts being made to strengthen the neighborhoods and local housing market.

Conclusions

While some tools already exist to help provide long-term affordable housing on the Westside, as development there accelerates, these tools are quite limited. Much more needs to be done to put in place the sorts of programs and policies that will form a bulwark against rapidly rising housing prices and potential displacement, especially for existing residents. Over time, it is also important to provide affordable housing for new residents as well, so that the neighborhood can offer a place for families of all income levels, and not simply transition rapidly from a place of concentrated poverty to one of concentrated affluence.

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