The mixed-income housing development is located at or near the urban core like Quality Hill, a 510 rental unit project in Kansas City, Missouri, one of 50 throughout the country undertaken by St. Louis-based developer McCormack & Associates.

(Jonne, and others), the Section 8 rent subsidy, various debt subsidy programs like the Federal Home Loan Bank’s Affordable Housing Program (AHP), and, within the last ten years, the low-income housing tax credit (LIHTC).

Finally, as what works and what does not work in affordable housing development has become clear, government funding to support it has become increasingly scarce. The growing sense of just community in the city has accompanied growing economic anxiety in the middle class; large-scale government support for its poor, after a brief upsurge 30 years ago, is now unquestionably 'out of vogue in an era of balanced budgets and tax cuts. And the magic of the market is proving insufficient to provide adequate housing for rich, middle-class, and poor alike.

HOPE VI: The Latest Tool

HOPE VI is the latest financing tool to bring the urban community is closer to reality. In 1992, Congress created the Urban Development Action Demonstration Program (otherwise known as the Housing Opportunities for People Everywhere) to revitalize severely distressed public housing developments throughout the country. HOPE VI was designed to end the isolation of public housing agencies by encouraging partnerships with the broader private sector side of the mixed-income housing coin. McCormack Baron first worked with low-income housing developments in the early 1990s. Then, as Section 8 rent subsidies began to taper off, it began to focus on attracting moderate-income people back into the city. "We operate at the crossroads between market-rate housing and affordable housing, doing what we can to reclaim and rebuild neighborhoods," says Kevin McCormack, executive vice president. Since its founding, McCormack Baron has been involved in more than 50 mixed-income projects throughout the country, with combined development costs of more than $500 million.

But Mitchell, chief operating officer of Boston-based Beacon Community Development Corporation, also works from a private, profit-making model to generate successful mixed-income development. "Over the years, it became increasingly clear that complexes that were 100 percent devoted to low-income housing would not sustain sufficient political support or connections to the local community to succeed," points out Mitchell. "And the sites themselves need better asset and real estate management than is generally available from public entities." That is why, according to Mitchell, BCDC finds success in the mixed-income approach: the company uses HOPE VI funds as a lever to establish public/private partnerships and garner political and resident support to transform existing public housing into mixed-income communities.

The role of the nonprofit developer also continues to be refined. According to Agustin Domínguez, executive director of Greater Miami Neighborhoods, a nonprofit housing developer and provider of technical assistance to numerous nonprofit development corporations in South Florida, each project poses its own challenges. While Greater Miami Neighborhoods has yet to work on a HOPE VI transaction, it already has developed more than 3,000 low-income units and is looking closely at mixed-income housing. "Large, 100 percent low-income projects built on cheap land are most likely to win LIHTC allocations," he says. "They also are the most likely to turn into ghettos."

Due to land costs in urban areas and the shortage of subsidies for amenities and services, low-income LIHTC projects often lack the neighborhood component that facilitated the success of a mixed-income project. Consequently, acquisition and rehabilitation of existing housing where current tenants generally meet low- or mixed-income affordability restrictions for tax-exempt financing is another development model Domínguez has pursued. But this approach, while preserving existing affordable housing stock, does not reach the poorest of the poor. "Deep subsidy remains the most effective means to finance mixed-income development in the urban core," says Domínguez.

HOPE VI is only the latest in a long series of mixed-income development tools. One success story demonstrated by one of BCDC’s partners is King’s Lynn, a mixed-income community that sits on the former site of America Park in Lynn, Massachusetts. One of

Urban Community Housing

Mixed-income housing is one way to achieve social diversity and manage economic constraints.

As the gap between real personal incomes has widened in the latter half of this century—and with it the physical and cultural distance between people of varying means—the notion of urban community has become a contradiction in terms. Furthermore, the appreciation of real estate in recent years has outpaced the increase in real wages, increasingly precluding the economic integration of neighborhoods. Some developers and public agencies, however, insist that this is the dinn view: They are financing and building housing projects as a means to bring a variety of households together in financially and socially diverse communities—what builders and planners call mixed-income housing developments. Definitions of mixed-income development vary, and there are wide differences in the degree of affordability required. The model mixed-income development is located at or near the urban core, provides an assortment of market-rate and below-market housing for sale or rent, and offers amenities such as parks and play areas, community centers, and recreational facilities. These developments seek to preserve the advantages of urban residentialism and proximity, retaining the top-of-the-line appeal of urban neighborhood life and fostering interaction among residents of diverse economic backgrounds.

Three major influences have affected mixed-income development. First is the growing public consensus that projects financed, built, and managed by the federal government in the last 60 years have been a physical and fiscal failure. Second, well-established, nonprofit community development corporations (CDCs) increasingly turned their efforts to large-scale development, often partnering with profit-motivated developers to expand their capacity, learning how to make creative use of government and philanthropic support. The CDCs have had access to a variety of funding programs that augment state and local programs, including development grants (such as UDAG, HUD) and other sources.

The spread of mixed-income development is most widespread in the Midwest and the South. In 1993, the National Community Development Corporation Association held its annual conference in Chicago's Bronzeville neighborhood, the site of one of the city's most successful mixed-income developments. The project, known as Westside Housing Opportunity Neighborhood Development Organization (WENDO), was created by the North Lawndale Community Planning Council in 1976 to address the need for affordable housing in the neighborhood. WENDO received a $3 million federal grant in 1977 to develop the Westside Housing Opportunity Neighborhood Development Organization (WENDO), which was created by the North Lawndale Community Planning Council in 1976 to address the need for affordable housing in the neighborhood. WENDO received a $3 million federal grant in 1977 to develop the Westside Park Apartments, a 288-unit low-income housing development that opened in 1980. The project was designed to provide housing for low-income families, including those with special needs, such as the elderly and individuals with disabilities.

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the first mixed-income communities developed, it has maintained its original ideal of achieving economic integration in a neighborhood setting since it opened nearly 20 years ago. For King's Lynn, BCI used conventional market practices—providing the right amenities, quality construction, good management and pricing—in addition to tax-exempt bonds and a significant government subsidy. Residents also participated in the development of the community.

The Power of Partnership

Because much more than housing is needed, mixed-income housing often requires building a community before the project is built. Unlike privately held, 100 percent market-rate developments or publicly operated projects, mixed-income communities usually are owned and managed by a combination of public and private entities, often through a land-lease arrangement. Determining the best players for a successful team to build mixed-income projects depends on the project specific. BCI has found, for instance, that an active and supportive resident council is at a plus. This is generally true of any substantial rehabilitation or replacement project with existing tenants. It is especially true for HOPE VI projects, developments that seek to improve the lives of residents of some of the most severely distressed public housing in the country. According to Mitchell, the most successful partnerships arise when tenants and for-profit developers work together, drawing also on the abilities of those in the community who are most committed to creating change, whether they are housing authorities, city officials, nonprofit community development corporations, or others.

McCormack also points out the importance of strong leadership and any expertise required by the developer—who continues to assume a good deal of risk, even with a significant public subsidy—and stresses the necessity of gaining the approval of local opinion leaders. Nonetheless, Dominguez feels that low- and mixed-income development can face a double standard. A private developer proposing a market-rate development does not automatically encounter the public review expected by a low-income housing developer, he says. "We value public interaction and support and solicit the input of residents, but we do not believe it is essential to every project. The overriding issue is maintaining ingenuity and craft in steering our mission of providing housing for a diverse array of low-income residents."

In the case of Holly Park, the Seattle Housing Authority is developing teams for each phase and for different aspects of the project. For Phase I, the housing authority is acting as general partner in partnership with an equity investor. "For later phases, other forms of ownership, including the involvement of local nonprofit corporations and tenants groups, might come into play," says Doris Koo, director of development at the Seattle Housing Authority. "But our first order of business is to get through the first phase and see how this arrangement works"

for the development team, the authority and residents have brought in a variety of experts, including architects, planners, developers and financial consultants, a property manager, and a general contractor. Like all developments, mixed-income communities must be designed to suit the local physical and cultural landscape. For Holly Park, the housing authority thought that a townhouse style of development would be most appropriate. For his part, McCormack speaks of the importance of respecting the heart of the neighborhood in designing a new development. We deal directly with the neighborhood, the city, and those individuals interested in preservation in order to meet everyone's needs," he explains. Depending on the site, different parties provide input on everything from facades to sidewalks to location of common utilities. Ultimately, however, adds McCormack, "It needs to be something that can beget leased." BCI's design philosophy is one of experience. Building the projects has led Mitchell to conclude quite simply that "you start from what has worked, and you build on your market." Mixed-Income Finance

Creating the necessarily layered funding for this type of development requires the input of players with financial savvy. The formula involves an intricate combination of conventional debt, soft debt (usually from government sources), and equity. Although the combinations differ from project to project, the methodology for this financing is a well-established product of years of refinement. Debt and equity financing typically are structured to make claims on the project in their order of conventional. Private lenders are paid back first; federal grants are paid back last, if at all, and the other sources fall somewhere in between. The model has been shown to work and provides for exciting challenges with HOPE VI and other deals. Howard Gong, San Francisco-based financial consultant for both the Seattle and San Francisco housing authorities, jokes that the model was recognized as an expert in HOPE VI financing even before he had closed a deal. "We worked through a huge number of options for these projects, balancing desires and hard realities against each other to make them work. We still have a way to go with some aspects of the financing, but we have enough experience with this product and approach to financing the challenge that we can equitably meet the goals of all the parties involved," says Gong.

The Holly Park project is taking advantage of a tax-exempt bond issue with LHTIC equity, highly structured bridge debt, administration grants, and city and state contributions of time and material. The key to the financing is the planning phase involving residents and the surrounding community at city street and assembling a team of dedicated development and financial consultants. The team works directly with lenders and property managers to streamline documents and layer the various subsidies required.

McCormack has sought to cultivate relationships and nurture new talent in house instead of hiring consultants. "These types of issues fundamentally do not work according to standard economic models," he explains. "You must have a pioneering effort involving a lot of risk, and you are not going to attract the requisite expertise because it is not a business where you can leverage private capital creatively. The key is to rely on a combination of public and private funds, "

In June, the San Francisco Housing Authority, director of multifamily development at HUD, is excited about the role the federal government played in mixed-income projects. "In many respects, for example, the Housing Authority Administration (HFA) insurance provides credit enhancement for the debt, and existing and new subsidy programs from HUD can cover some of the gap in subsidy." Potential Obstacles

Mixed-income development presents the same problems that low-income housing presents, although experience is showing that mixed-income development can be an easier "sell" at community meetings. According to Mitchell, the primary bumps on the road to success are the extra: assigning financial responsibility for things such as infrastructure, relocation, and legal issues common to these developments. Dominguez notes that compliance issues have slowed down some LHTIC equity investors who fear that the wider the range of income eligibility, the more difficult it will be to manage compliance and thus ensure the viability of their investment. Equally critical is to attack the stigma that may have been associated with living at the housing project scheduled to be demolished or rehabilitated.

In light of these issues and others, McCormack cites planning as the most critical element of the process, and the one that, if not executed carefully, could cause the most problems. "In some neighborhoods, the folks can't imagine a project that would be compatible with their own goals, so we have to do what we can to work with them to meet those goals together."

Meeting the Challenge

Mixed-income projects represent an attempt to preserve urban residential quality and support economic and social integration. Now, approximately 20 years after the opening of the first mixed-income projects and five years into the HOPE VI program, the industry has many reasons to be very proud of its success. In the San Francisco Bay Area, HUD has provided the low-income mortgage insurance that has allowed the financing of projects that cover the full spectrum of mixed-income development, from predominantly market-rate developments to acquisitions and rehabilitation projects that preserve existing affordability, to new construction of replacement housing using HOPE VI funds. "Mixed-income housing is a means to rebuild our neighborhoods," says HUD's Mr. Amundsen. "We need the opportunity to support a diversity of development efforts."

The ultimate test of a mixed-income community is whether the neighborhood is the kind of place where the average American would be happy living. A growing number of developments are proving that they are, and an increasing number of community builders are rising to meet the challenge of creating more such places for the future.

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