MIXED-INCOME HOUSING: A NEW DIRECTION IN STATE AND FEDERAL PROGRAMS

by Morton Hoffman, CRE

In the vast literature on housing, relatively little attention has been given to mixed-income, income-integrated housing. This article analyzes the experience of state housing finance agencies in Illinois, Maryland and Massachusetts and the Fair Share, an inclusionary housing program in New Jersey. The article cites Montgomery County, Maryland's Moderately Priced Dwelling Unit Program and the path breaking activities of the Housing Opportunities Commission.

A 1974 article by Jack Bryan in the *Journal of Housing* noted that "the conscious attempt to experiment in mixing different economic levels in the same housing area represents a new direction in the United States for both private and public marketing policy and has gradually expanded only in the past 10 years."[1] Bryan cited state and federal programs, such as New York State's Mitchell-Lama program of low-cost, long-term mortgages and tax abatement, federal laws for interest subsidies for moderate-income families in private developments (Section 221(d)(3) in 1961 and Section 236 in 1968), and rent supplement payments for lower-income families in these developments (first authorized in 1965). Similar to early writers/organizations in this field, Bryan emphasized projects and programs bringing low-income occupants into moderate-income housing.

The Massachusetts Housing Finance Agency (MHFA) program, initiated in 1970, was cited by Bryan as the most advanced and largest of the mixed-income state housing programs. In the late 1960s and early 1970s, the New York State Urban Development Corporation (UDC), under the direction of Edward L. Loge, promoted mixed-income developments, noting that the need for better housing is shared by both low-and middle-income families. Such balance would promote the development's long-range social and fiscal viability. The UDC established a policy of economic balance for its housing developments, using a "70-20-10" formula (70 percent for moderate-income families, 20 percent for low-income families and 10 percent for low-income elderly).

Based in part on the writer's experience in these areas and a review of the literature, this article draws upon data from the State Housing Finance Agency and other housing officials in the four states already identified and in Montgomery County, Maryland.[2]

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Montgomery County Maryland, Moderately Priced Dwelling Unit Program

Montgomery County, Maryland, a northern suburb of Washington, D.C., with a 1994 population of 803,000, is the most populous jurisdiction in the state, with more than 60 percent of the county's workers employed within its boundaries. The high cost of new and existing housing in Montgomery County has made it difficult for many low-and moderate-income employees to live near their jobs. A current estimate is that 29,000 low-income families are in need of affordable rental housing, and the county's Housing Opportunities Commission has 10,000 households on its waiting list for federal subsidies.

In 1973, Montgomery County developed an innovative, countywide inclusionary zoning/density allowance program known as the Moderately Priced Dwelling Unit (MPDU). The program requires builders to make available a share of the units at a below market rate sale price or rental rate which allows the builder to exceed the normal zoning density of the site.

The MPDU program facilitates the distribution of new low-and moderate-income housing throughout the county, thereby fostering the development of mixed-income communities. The county establishes affordable housing requirements and density allowances in its county code and zoning ordinance. The housing authority and housing finance agency, the Housing Opportunities Commission (HOC), may purchase up to one-third of the MPDUs, and it can provide below market-rate mortgage financing for qualified MPDU purchasers.

Density Allowance To Builders

The MPDU program is the country's first mandatory inclusionary zoning law that also provides a density allowance for builders to offset production costs. It requires that between 12.5 to 15 percent of every subdivision or building of 50 units or more (in zones with lot sizes of less than one acre) be made available as MPDU units. A density bonus allowance is given for up to 22 percent, which is linked with the production of MPDUs. A specific program goal is to fund additional affordable housing initiatives through contributions to the county's housing trust fund made by developers in lieu of producing moderately priced dwelling units.[3]

The MPDU program markets to renters and first-time home buyers with 1995 incomes ranging from under $16,000 to $39,900 for larger families. Units purchased by HOC are targeted for households with low-or very low-incomes. HOC also makes below market rate financing available to MPDU purchasers and works with non profit agencies who wish to participate in the purchase of up to seven percent of all ownership MPDUs. Financing for the acquisition of MPDUs by HOC comes from a variety of sources, including Federal Low Rent Public Housing acquisition funds, local tax exempt bonds, private sector contributions to Federal Low-Income Housing Tax Credit partnerships, non profit corporations, state housing finance agency funding (the Community Development Administration) and the Federal Housing Finance Board's Affordable Housing program.

Ironically, a significant obstacle to the MPDU program is the restriction imposed on all residential production by the county's Adequate Public Facility and Annual Growth Policy ordinances. The MPDU program's most significant limitation arises from its dependence on the level of market rate housing. Nearly 8,800 MPDUs were produced from 1976 to 1993, constituting about three percent of the county's total housing stock. The MPDU program has fostered economic and racial integration in a county which otherwise might have become exclusionary. Moreover, two surrounding jurisdictions, Fairfax County, Virginia and Prince George's County, Maryland, have enacted similar legislation.

Montgomery County, Maryland, Housing Opportunities Commission

The Housing Opportunities Commission (HOC), which benefits from the county's MPDU program, follows an extraordinarily careful and thorough preparation and planning for its mixed-income developments. It selects a site, often at a greatly reduced or marked down price, prepares a detailed physical plan and suggested architectural treatment, including unit size distribution, and retains an architect. It has an economic consultant perform an independent market analysis designed to evaluate the marketability of two to three categories of low-and moderate-income housing, usually totaling 50 percent of all units and market rate housing of 50 percent, carefully coordinates and monitors activities of all staff and consultants, considers the need for social and support services, involves the neighborhood in issues of design, access and possible neighborhood impact, holds public hearings and devises a financing plan and program.

Four Mixed-Income Developments

As of May 1995, HOC has four mixed-income developments completed or under construction, with a total of 681 units, including townhouses, low-rise, four-story elevator and high-rise, with the market rate share ranging from 22 to 70 percent.

In an article in *Urban Land* on Timberlawn Crescent, a mixed-income development in West Bethesda, the authors noted that development feasibility "depended on the low-cost land and on HOC's ability to issue $5.46 million of tax-exempt essential function bonds at an interest rate of 7.05

percent. Insurance provided by the Maryland Housing Fund... made this an AA-rated bond issue." Important in alleviating the fears of neighbors was "HOC's declared intention of building a community that met or exceeded neighborhood norms in terms of design."[4]

Five years after completion, Timberlawn Crescent had 99 percent occupancy and had added 20 assisted units in a second section, lowering the market rate proportion to 40 percent. The development has proven successful and has been completely accepted by the community association.

Alexander House, a 311-unit high rise in Silver Spring, has seven tiers of rent, ranging from affordable to very low-income households, to market rate rents of more than $1,000; 78 percent of the units are below market. Now under construction, Strathmore Court at White Flint, in North Bethesda, benefits from the donation of land by the nearby office space developer (arising from the county's growth plan requirements).

Alexander House, a 16-story high rise in Silver Spring, completed in 1988, has 311 apartments with tiered rents for low, moderate and market rate household. Financing included HOC tax exempt mortgage revenue bonds, a state loan of $1.5 million, a county loan of $2 million and $2 million from HOC's Opportunity Housing Reserve Fund. Amenities include a public park and ornamental iron sculpture.

Sunrise at Kensington Park is a 165-unit retirement community containing three buildings, two for assisted living and one for independent living. Thirty percent of the residents have incomes averaging 20 percent of the area median income; rent-assisted residents in the assisted-living component pay 75 percent of income for rent; rent-assisted tenants of the independent living component pay 65 percent.[5] The remaining 70 percent pay market level rents.

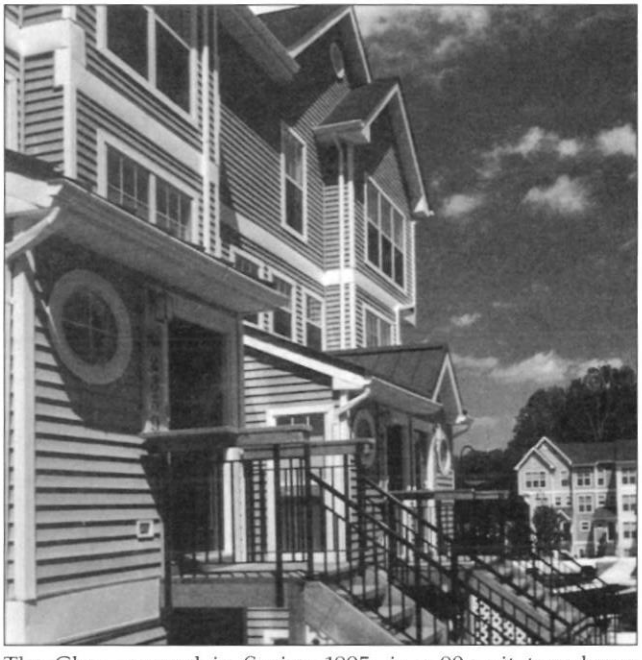
A second category of mixed-income developments monitored by HOC, arise from HOC-financed, privately owned developments. As of June 1993, there were 8,400 units, all rental, in 35 to 40 developments. Most are 80 percent market rate, and 20 percent are low-and moderate-income. Almost all were bond financed. The great bulk of the privately owned development was produced in 1984-1985.

A third category of HOC economically-integrated projects are developments acquired by HOC as part of a conservation program to maintain and secure the existing affordable rental housing stock. These projects have no restrictions on income and the occupants represent those who are predominantly below 60 percent of median family income. The projects also include households who lived there before HOC acquisition, and they pay market rate rents. Of the five developments, four are for family occupancy. They are HOC managed, contain 483 units and range in size from 18 to 189 units.

The HOC Board and staff believe strongly that low-and moderate-income residents benefit in many ways from living in the same development with market rate, middle income residents. In varying degrees, several state housing finance agencies share this philosophy.

Maryland Community Development Administration
Data are available from three state housing finance agencies on the proportion of total housing financed by these agencies that are market rate or income-restricted units and the share of market rate and income-restricted units in mixed-income developments.

In Table 1, data on the Maryland Community Development Administration (CDA) portfolio, as of



The Glen, opened in Spring 1995, is a 90-unit townhome rental community in Wheaton, Maryland. Using Federal HOME funds, a Maryland state loan and tax exempt mortgage revenue bonds, the Housing Opportunities Commission is renting the property at rents ranging from $417 to $1,105. Thirty-five of the units rent for below market price.

TABLE 1

Maryland Community Development Administration—Mixed-Income Multifamily Developments

	All Developments				Mixed-Income Developments			
	Number of Developments	Income Restricted Units	Market Rate Units	Total Number of Units	Number of Developments	Income Restricted Units	Market Rate Units	Total Number of Units
Baltimore Area[a]	173	9,467	3,881	13,348	87	4,128	3,881	8,009
Suburban Maryland[b]	91	6,673	3,564	10,237	52	3,781	3,564	7,345
Remainder of State	85	2,965	519	3,484	34	596	519	1,115
Total *Maryland*								
Number	349	19,105	7,964	27,069	173	8,505	7,964	16,469
Percent		70.6%	29.4%	100.0%		51.6%	48.4%	100.0%

[a] Includes Baltimore City, and Anne Arundel, Baltimore, Carroll, Harford, and Howard Counties.
[b] Includes Charles, Frederick, Montgomery, and Prince George's Counties in the Washington, D.C. area.

Source: Maryland Community Development Administration, and Morton Hoffman and Company, Inc., May 1995.

May 1995, show 349 developments financed in Maryland containing 27,069 housing units. Of these 70.6 percent were income-restricted (i.e., low- and moderate-income), and 29.4 percent were market rate. However, of 173 mixed-income developments with 16,469 units, market rate units constituted 48.4 percent and income-restricted units constituted 51.6 percent.

Ninety-three percent of the market rate units were in the most populated Baltimore and Washington, D.C.- suburban Maryland areas, and only 6.5 percent were in the remainder of the state. Montgomery County is included in the total for suburban Maryland. The most frequent mixed-income developments are 80-20, with 80 percent market rate and 20 percent low income.

Research Findings On Mixed-Income Housing

In a May 1991 article in *Urban Land*, Elizabeth A. Mulroy summarized the comprehensive 1990 research by the Boston University School of Social Work on three mixed-income and three comparable market rate projects (in Laurel, Maryland; St. Louis, Missouri; and Fremont, California). The three mixed-income projects, all of the 80-20 type, had different below market income levels. Professor Mulroy concluded that, "When they offer attractive amenities, good quality housing, safe environments and housing value, mixed-income developments in a wide variety of locations are competitive with market rate developments in attracting tenants."[6]

Illinois Housing Development Authority

The Illinois Housing Development Authority (IHDA) was established in 1967, the fifth such state housing finance agency in the United States. In a fascinating book, *The Poorhouse, Subsidized Housing in Chicago, 1895-1976*, author Devereux Bowly, Jr., noted that "in its first seven years of active participation in housing financing, IHDA achieved a good record. In 1974 and 1975 one in every three new rental units in Illinois was financed by IHDA",[7] or 6,100 of 18,700 units were constructed.

Table 2 shows the current portfolio of 218 IHDA developments, consisting of 38,758 units, of which 24 percent are market rate and 76 percent are income-restricted. However, of 63 mixed-income developments, 63 percent of 14,789 units are market rate and 37 percent are income-restricted. Most of IHDA's mixed-income developments were in the form of 80-20 developments.

Massachusetts Housing Finance Agency

A far reaching study on the effect of mixed-income housing was commissioned in 1974 by the Massachusetts Housing Finance Agency (MHFA).[8] MHFA's original policy required a minimum of 25 percent of all units in the developments it finances to be available through subsidy programs to low-income tenants. The substantial degree of racial integration, also called for in the policy, was found to be less successfully implemented.

1974 Social Audit

A research group headed by Dr. William Ryan of Boston College and Allan Sloan studied a sample of 16 MHFA-financed developments with 3,200 tenants, including intensive interviews with 200 plus MHFA tenants and a control sample of 125 tenants

TABLE 2

Illinois Housing Development Authority—Mixed-Income Multifamily Developments[a]

	All Developments				Mixed-Income Developments			
	Number of Developments	Income Restricted Units[b]	Market Rate Units	Total Number of Units	Number of Developments	Income Restricted Units[b]	Market Rate Units	Total Number of Units
City of Chicago	79	12,022	4,189	16,311	24	1,944	4,289	6,233
Chicago Suburbs	70	8,428	4,582	13,010	33	2,953	4,582	7,535
Balance of State	69	9,012	425	9,437	6	596	425	1,021
Total *Illinois*								
Number	218	29,462	9,196	38,758	63	5,493	9,296	14,789
Percent		76.0%	24.0%	100.0%		37.1%	62.9%	100.0%

[a] This does not include production from either the Federal Home Program or the State's Affordable Housing Trust Fund Program.
[b] The Income Restricted Units include either Sec. 236, Sec. 8 or low-income units as required by Tax Exempt programs.

Source: Illinois Housing Development Authority, May 1995.

in similar nonmixed-income developments; held interviews with developers, managers, architects and town officials; and conducted design evaluations. The study also analyzed demographic variables of the towns. The households were chiefly in garden type apartments in smaller cities and 16 towns.

Eighty-nine percent of the MHFA residents were, of varying degrees, satisfied with their homes and the projects, compared with 78 percent of those in the nonmixed-income developments. Their satisfaction resulted not because the projects were economically integrated, but from the quality of the housing, the neighborhoods and the management.

The general conclusion of the Massachusetts study was that "income mix 'works'...principally because these developments are superior in design, construction and management. Income mix as such does not seem to be an important determinant of satisfaction and dissatisfaction."[9]

MHFA Mixed-Income Programs

As shown in Table 3, by May 1995, MHFA had financed a total of 52,321 units in 439 developments, of which market rate units equal 16 percent and income-restricted units, 84 percent. For 130 mixed-income developments, market rate units constituted 53 percent of the 16,177 units and income-restricted units constituted 47 percent.

According to its 1985 Annual Report, MHFA used a new shallow subsidy program, State Housing Assistance for Rental Production (SHARP), in conjunction with the HUD co-insurance program for its first 80-20 developments. "In these developments, rent skewing is used to make at least 20 percent of the units available for low-income households."[10]

Mixed-Income Housing In New Jersey

In 1975, the New Jersey Supreme Court in *Mt. Laurel I*, established the doctrine of a municipality's constitutional obligation to provide a realistic opportunity for the construction of its fair share of the regional need for low- and moderate-income housing.[11]

However, lack of vigorous enforcement of *Mt. Laurel I* led, to *Mt. Laurel II*, in which the New Jersey Supreme Court reaffirmed and strengthened the *Mt. Laurel* doctrine, broadening the obligation to include all municipalities in the state and providing for more specific and effective remedial devices. The court called for development of a numerical fair share formula, use of the State Development Guide Plan to allocate fair share responsibilities, approved general use of the "builder's remedy", and assigned three specially-designated trial judges to handle all *Mt. Laurel* litigation. (The "builder's remedy" permits builders to sue a township or municipality on a friendly basis and allows for four market rate units for each affordable unit. Theoretically, the market rate units subsidize the lower cost units.) A trained professional planner, called a court master, reports to the judge on the status and circumstances of a case.

The Fair Housing Act of July 2, 1985, provided a comprehensive planning and implementation process and established the Council On Affordable Housing (COAH). COAH was given the power to define moderate-income housing at the state and regional level and to establish criteria and guidelines for municipalities to determine their own fair share, to phase in their housing obligation and, if desired, to transfer some of that housing to a willing municipality through a regional contribution agreement (RCA). In *Mt. Laurel III*, 1986,

TABLE 3

Massachusetts Housing Finance Agency—Mixed-Income Rental Housing

	All Developments				Mixed-Income Developments			
	Number of Developments	Income Restricted Units	Market Rate Units	Total Number of Units	Number of Developments	Income Restricted Units	Market Rate Units	Total Number of Units
Total *Massachusetts*								
Number	439	43,761	8,560	52,321	130	7,617	8,560	16,177
Per Cent		83.6%	16.4%	100.0%		47.1%	52.9%	100.0%

Source: Massachusetts Housing Finance Agency, May 22, 1995.

the Supreme Court declared constitutional the Fair Housing Act and allowed transfer to COAH of virtually all litigation then pending before the courts.

A 1993 report prepared by the New Jersey Department of Community Affairs,[12] based on a 1992 survey, showed that during the first six-year cycle under COAH, 13,600 total dwelling units were built, rehabilitated or were under construction in 280 developments in 125 municipalities.

Types Of Subsidies, Mt. Laurel Housing

Subsidies for Mt. Laurel housing came from one of five main sources—Inclusionary Development, Regional Contribution Agreements, Balanced Housing Fund, Low-Income Housing Tax Credits and a handful of HUD programs.

According to Sidna Mitchell of COAH, and corroborated by a study of Professor Robert W. Burchell of Rutgers, about 13,500 units were constructed out of 54,174 approved affordable housing units in COAH's first round. Of these, *about 10,000 were probably mixed-income.*

According to Burchell, "COAH and the courts oversaw or influenced affordable housing at a rate of 11,000 land parcels per year, 25 percent of which was realized in the form of developed or rehabilitated housing."[13] The real estate recession was, of course, going on during this time.

In spite of this commendable showing, COAH estimated 1987-1999 affordable housing needs at about 83,000, including 42,700 to replace deteriorated housing and 40,600 for new housing.

Analysis Of Griggs Farm

The case of Griggs Farm, in Princeton Township, New Jersey, is an example of a well-intentioned development that went wrong. In 1988, Princeton Township and the Princeton Regional Planning Board approved a 280-unit, 50-50 mixed-income and mixed-tenure development. Two years later, Princeton Township contracted with a consulting firm to evaluate the marketability and financial feasibility of this severely troubled project. In its 1990 report to Princeton Township, the consulting firm stated:

> "We regard this laudable aim of Griggs Farm to be one of the reasons for its present financial predicament. That is, it is difficult but achievable to obtain economic integration and financial viability in an individual housing development if land planning, unit mix, architectural considerations and site location are all in tune. However, when different tenures, sales and rental, are added to a combination of low-, moderate-, and market-rate income housing, it becomes very difficult to get expeditious occupancy for the highest priced or market rate units. Many factors have contributed to Griggs Farm's problems, including unit mix; design of units; size of units; lack of storage; apparent high density in appearance; lack of phasing of units which could have brought about earlier FNMA approval on a first section and would have resulted in availability of FHA and VA financing and lower down payments; inadequate marketing; and insufficient awareness of the characteristics of competitive developments in the broader market area. The severe real estate downturn exacerbated all these weaknesses. However, the mix of 50 percent affordable units—25 percent rental and 25 percent sales—and 50 percent market rate sales is a crucial part of the problem."[14] This was apparently the only COAH project in New Jersey with this mix.

Income Integrated Housing Provides Broader Living Environment

For a long period, conventional real estate analysis held that most families seek identified one-class developments. Many state housing finance agencies, such as those in Illinois, Maryland, Massachusetts and New Jersey, have successfully fostered housing for low-,moderate and middle-income families, and encouraged mixed-income or income integrated developments.

In recent years, there has been increasing recognition that creating excessive concentrations of low-income families is an unwise public policy that should be avoided. However, achieving a mixed-income housing development cannot be undertaken lightly. Research previously cited by the MHFA Ryan/Sloan team and Mulroy, and the experience of the Montgomery County, Maryland Housing Opportunities Commission confirms that mixing income levels is not a deterrent to people seeking better housing and neighborhoods, as long as the development itself is well designed, built and managed. Careful tenant selection is also advisable.

Professor Elizabeth Mulroy found that "the most important determinants are the overall quality of the development and the neighborhood, the monthly rent and accessibility to services such as stores, public facilities, and public transportation."[15]

NOTES

1. Jack Bryan, Major Feature Writer, *Journal of Housing*, 8:74 "Can 'economic mix' in housing work?", pp. 367-374.
2. Appreciation is noted for the cooperation of: John Greiner, Housing Policy Officer, Maryland Department of Housing and Community Development; Dan DeLong, Assistant Director, Marketing Research, Illinois Housing Development Authority; and Rufus Phillips, Research and Program Development Officer, Massachusetts Housing Finance Agency.
3. Division of Housing, Montgomery County, Maryland, Department of Housing and Community Development, May 27, 1993 Statement on the *MPDU Program*.
4. See Tom Doerr and Joyce Siegel "Mixing Incomes at Timberlawn Crescent", *Urban Land*, April 1990, pp. 8-11.
5. See Daniel Sachs and Joyce Siegel, "Assisted Living With a Twist--Mixed Income Residents", *Urban Land*, February 1994, pp. 21-23.
6. Elizabeth A. Mulroy, "Mixed-Income Housing in Action," *Urban Land*, pp. 2-7.
7. Devereaux Bowly, Jr., *The Poorhouse, Subsidized Housing in Chicago, 1895-1976*, 254 pages, pp. 219-220.
8. William Ryan, Allan Sloan, Mania Seferi, Elaine Werby, *All In Together: An Evaluation of Mixed-Income Multi-Family Housing*, A summary report of the Massachusetts Housing Finance Agency Social Audit, January 24, 1974, 24 pages.
9. *Ibid*, page 24.
10. Massachusetts Housing Finance Agency. *Annual Report for the year ended June 30, 1985*, page 2.
11. Low-income housing—housing which is affordable to people earning 50 percent or less of area median income, and moderate-income, between 50 and 80 percent of area median income.
12. Bob Fitzpatrick, *The Math of Mt. Laurel*, March 1993, 40 pages; see also a five-page summary of this report in COSCDA (Council Of State Community Development Agencies), *The State Line*, Jan/Feb 1993.
13. *Center for Urban Policy Research (CUPR) Report*, Rutgers University, Spring 1993, Vol. 4, No. 2, page 5.
14. Morton Hoffman and Company, Inc., *Marketability and Financial Analysis of the Griggs Farm Development*, Princeton Township, New Jersey, November 1990, page II-7.
15. Mulroy, *op. cit.*, page 5.