EVALUATION OF THE NEHEMIAH HOUSING OPPORTUNITY PROGRAM

FINAL REPORT

Prepared for:
U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Authors:
Antony A. Phipps
Kathleen Heintz
Monte Franke

Prepared by:
Abt Associates Inc.
with Aspens Systems Inc.
and OKM Associates

Contract HC-5867

February 1994

ACKNOWLEDGEMENTS

The authors owe a special note of thanks to the directors and staff of the fifteen nonprofit agencies comprising the first-round grantees under the Nehemiah Housing Opportunity Program, to the homeowners and residents of Nehemiah neighborhoods who willingly shared their home buying experience and insights, and to the many public and private organizations consulted for their perspectives on the program. The authors are particularly grateful to Ms. Chickie Grayson and her staff at the Enterprise Foundation for their assistance in providing information for the Baltimore case study.

Thanks are also due to Mr. Mike Shea and the staff of Aspen Systems for their significant contribution as subcontractors for this evaluation. In addition the authors gratefully acknowledge the advice and support provided by Mr. Joe Cater and Mr. Ron Sepanik of the Office of Policy Development and Research, and by Ms. Joan Morgan, Office of Housing, at the U.S. Department of Housing and Urban Development.

This report was prepared for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development, by Abt Associates Inc. under contract number HC-5867. The contents of this report are the views of the contractor and do not necessarily reflect the views or policies of the Department of Housing and Urban Development or the U. S. Government.

[Forward to be provided by HUD]

[Forward page 2]

TABLE OF CONTENTS

LIST OF EXHIBITS

EXECUTIVE SUMMARY

Created by Congress as part of the Housing and Community Development Act of 1987, the Nehemiah Housing Opportunities Grant Program has three primary goals:

- to increase homeownership among low- and moderate-income households,
- to improve neighborhoods in cities across the country, and
- to increase employment in those neighborhoods.

The program was modeled after a large, single-family homeownership project sponsored by the East Brooklyn Churches in a devastated section of Brooklyn, New York. That project produced 1,250 homes for low-income homebuyers at an average cost of less than $70,000 per home. The units were made affordable to purchasers in part through $10,000 deferred-payment loans from the City of New York. The national program offers competitively-selected nonprofit organizations federal funding of up to $15,000 per unit, which is used to provide interest-free second mortgage loans to first-time, low- and moderate-income homebuyers. These funds are available to the nonprofit sponsor only after a sales closing. No federal funds are provided under the program for acquisition or development. (See Appendix A for a description of the New York model and a discussion of the basic features of the national program.)

Since its inception, there have been three funding rounds under Nehemiah, providing a total of up to $60.2 million in grants to nonprofit organizations. In the first round of funding in 1989, 15 grants were awarded, a total of $18.9 million for 1,321 units.[1] These first projects formed the basis of this evaluation by Abt Associates. In the second round in 1990, 21 grantees were awarded $21.3 million for 1,437 units. Finally, in 1991, a third round of 18 grantees received $20 million to develop 1,353 homes. The Nehemiah program was canceled after the 1991 round, and no new funding is anticipated. However, the results of this evaluation are still relevant, because activities similar to Nehemiah may be funded under the HOME and HOPE III initiatives created by the 1990 National Affordable Housing Act (NAHA). The former legislation requires localities to set aside 15 percent of their funding for nonprofit groups to

1. This was the original total number of units stated in the applications of the first 15 grantees. Through the attrition of sponsors, and revisions in the design of individual projects, the number has since been reduced to 1,186.

develop affordable housing. HOPE III awards grants to nonprofits and cooperative associations to help eligible homebuyers purchase government-owned single-family properties. NAHA also directs HUD to test and refine eight models for affordable housing, including a model under which local governments provide deferred-payment second mortgages to first-time homebuyers. In all of these cases the experience under the Nehemiah program is directly relevant, and can be instructive for both planning and implementation.

Evaluation Methodology

This report provides a detailed assessment of the status and accomplishments of the 15 projects that received Nehemiah funding during the first year of the program (1989). The research is based on extensive interviews with project sponsors and other key actors involved in the evolution of each project, collection of project and homebuyer data from program files, windshield surveys of the project neighborhoods, and focus groups with new Nehemiah homebuyers and other neighborhood residents in each site. Site visits were conducted by the Abt evaluation team in January through March of 1992, and again in July through September of 1993. The purpose of the report is to synthesize information from the first and second round of site visits in order to examine:

- ***project organization and planning,*** focusing on the experience and capabilities of the sponsors to undertake the Nehemiah projects, the characteristics of proposed developments, and the neighborhoods in which they are located;
- ***project implementation,*** with an emphasis on how sponsors financed and managed the development process; and
- ***project outcomes,*** or the extent to which the program is meeting its goals of creating affordable housing opportunities, stimulating neighborhood revitalization, and providing employment opportunities for neighborhood residents.

Based on this assessment, the final chapter of this report provides policy recommendations for improving the efficiency of similar programs, and focuses on lessons of the Nehemiah program for future low-income homeownership initiatives. Because only a third of the total planned units had been constructed at the time of the second site visit, this report is not able to offer a conclusive evaluation of program impacts. Rather, the focus is on comparing the progress of the 15 projects, highlighting those project features and experiences that seem related to successful implementation.

Project Status

As shown in Exhibit ES-1, the 1989 Nehemiah grantees have progressed very slowly over the past four years, and three sites have dropped out of the program (Aguadilla, Camden and Highland Park). The number of planned units has dropped from 1,321 to 1,186. ***Only nine of the twelve active grantees have produced any housing units to date, and only one-third of the planned 1,186 units have been built.*** The Baltimore project, sponsored by the Enterprise Foundation, is far ahead of all the other projects, having constructed and sold all of its 300 units. Chicago has built 42 units (of which 37 are occupied), and Portland and Clairton have completed 25 and 24 units, respectively. With the exception of Portland, each of these projects had very experienced sponsors in the development area. The other sites that have constructed some housing units are Shelbyville (13), Gary (12), Tifton (7), Woonsocket (6), and Tuskegee (4). As of August 1993—the time of the second site visit—a total of 433 units had been constructed, of which 392 were occupied. Of the remaining three sites, one (Des Moines) was to begin construction on a first phase of 20 units in late 1993, and two (Washington and Pittsburgh) were expected to start construction some time in 1994.

All of the Nehemiah projects have fallen behind their original development schedules, most by two-and-one-half years or more. Only one project, Baltimore, is now complete; the rest expect to continue their programs through 1995.

Sponsor Experience and Project Support

One of the key factors believed to influence the success of Nehemiah projects is the capacity of the sponsors to plan and execute the project. Important indicators include the previous housing development experience of the sponsor, as well as the size, stability, and staying power of the organization. ***To date, the larger and more experienced organizations do appear to have made more progress towards completing their projects,*** and have demonstrated greater ability to overcome the various administrative, technical, and financial difficulties associated with project start-up.

Perhaps not surprisingly, the three largest and most experienced sponsors (Enterprise, Action Housing Inc., and Bethel New Life) all have completed a substantial number of units. The two remaining organizations in the high-experience group (SEASHA in Tuskegee and Telesis in Washington DC) are undertaking projects with extensive infrastructure requirements.

Exhibit ES-1

NEHEMIAH GRANTEES: PROGRAM STATUS AS OF AUGUST 1993

	Status as of August 1993					
Site	**Site Work Started**	**Original Number of Units**	**Planned Number of Units**	**Total Units Constructed/ Rehabilitated**	**% of Total Completed**	**Units Occupied**
Baltimore, MD	Yes	300	300	300	100%	300
Shelbyville, KY	Yes	25	18	13	76	12
Clairton, PA	Yes	50	50	24	48	15
Gary, IN	Yes	41	41	12	29	2
Chicago, IL	Yes	169	169	42	25	37
Tifton, GA	Yes	50	50	7	14	7
Portland, OR	Yes	250	250	25	10	11
Woonsocket, RI	Yes	50	50	6	12	6
Tuskegee, AL	Yes	52	52	4	8	2
Pittsburgh, PA	No	33	24	0	0	0
Washington, DC	Yes	132	132	0	0	0
Des Moines, IA	No	50	50	0	0	0
Aguadilla, PR	No	50	Canceled			
Camden, NJ	No	17	Canceled			
Highland Park, MI	No	52	Canceled			
Total	**10 of 15**	**1,321**	**1,186**	**433**	**37%**	**392**

Both have now completed infrastructure development. (Also, in Washington, 100 units of housing funded by Housing Development Action grants are being constructed ***before*** the Nehemiah units, and 29 of these are now complete.)

The influence of sponsor experience appears to be felt most strongly at the extremes. In contrast to the sites identified above, three of the four organizations that began the program without any prior development experience have dropped out of the program. Similarities among these three sites emphasize the importance of other factors that appear to influence progress, including organizational stability, understanding of the program, and political support.

Project Characteristics and Scale

The typical Nehemiah unit is a newly-constructed three-bedroom, one-and-one-half bath home with about 1,200 square feet of living space. New construction accounts for 88 percent of all units, with only two of the sponsors doing rehab exclusively, and four more doing some rehab in conjunction with new construction. Roughly 60 percent of the units are attached townhouses or row houses, and most of the remainder are single family dwellings. Only 6 percent of the units are "other" types, including condominiums and duplexes.

In contrast to the original New York Nehemiah program, which produced 1,250 units of housing, the projects proposed by the first-year Nehemiah sponsors were relatively small. Projects ranged from 17 units (Camden) to 300 (Baltimore). In fact, all but four of the original 15 sites either proposed the minimum program size (50 units) or requested waivers to do fewer than 50 units. This appeared to reflect a strong preference for more manageable, and perhaps lower risk, projects, even at the expense of neighborhood improvement goals. Also, more than half of the first-year grantees opted for scattered- or multiple-site designs, as opposed to the large-scale, concentrated development model implied by the program legislation and the New York model. This is not particularly surprising, given the difficulty of assembling large tracts in most urban areas.

Another way the national program sites differed from the New York model was their relatively low emphasis on use of innovative construction techniques and achieving economies of scale. In Baltimore, the anticipated economies of scale have been realized, as evidenced by the low construction cost and affordability of the units produced to date; off-site unit construction and fixed-price contracts with major subcontractors and suppliers helped to control cost increases to about 1 percent over the development period. In other sites, however, projected development costs have been rising, in some cases forcing redesign of the project. Overall, potential economies of scale have been reduced by the small size of the projects, the use of scattered sites, and by phased development plans with only a handful of units under construction at any one time. As noted above, there was a strong sponsor preference for smaller, multi-phased projects to reduce risk and minimize financing needs. In most cases, however, it appeared that the sponsor's construction capacity far exceeded the ability to market the units, meaning that in some sites homes were built one at a time as buyers were signed up. Thus, market constraints further reduced possible economies of scale.

Neighborhood Context

As evidenced by 1990 Census data, Nehemiah projects are located in largely low-income, minority neighborhoods with high proportions of African-American households. The exceptions are Tifton, Aguadilla (100 percent Hispanic), Shelbyville, Clairton, and Woonsocket. Median incomes and median rents tend to be about 75 percent of the comparable figures for the city as a whole. Compared to the cities in which they are located, Nehemiah neighborhoods tend to have much higher vacancy rates, fewer owner-occupied units, and lower home values. Median values for owner-occupied units in these areas were a third lower on average than those for the city as a whole.

Site visits and secondary data confirm the blighted and deteriorated condition of many of the Nehemiah neighborhoods. Almost all sites reported high levels of crime and unemployment; in addition, in the larger cities, unemployment and crime rates have reportedly worsened over the last three years. Six of the 15 sites were in locations where more than half of the area's housing units were severely deteriorated, dilapidated, or abandoned. Among the sites that appeared to have the worst housing conditions were Baltimore, Camden, and Chicago. By contrast, the neighborhoods in which the Tuskegee, Woonsocket, and Clairton projects are located show relatively little observable housing deterioration.

Given the extremely difficult environments in which most sponsors are working, virtually none of them feels that the Nehemiah project by itself can turn a neighborhood around. In recognition of this, ***most Nehemiah projects are part of a larger neighborhood redevelopment strategy.*** Taken together, these efforts are expected to have substantial positive impacts on the Nehemiah neighborhoods.

Target Purchasers

Most sites are targeting their sales program to low- and moderate-income residents of their neighborhoods. The high end of their target income range is well below the program maximum (although two sites have exceeded this amount by using the 115 percent waiver). The lower ends of the ranges are quite low in many sites; ten of the twelve active sites are expecting to serve buyers with incomes under 50 percent of the metropolitan median, and ***three of these anticipating buyers at less than 25 percent of median.*** Most of the sites appear to be meeting their targeting goals, using deep subsidies to make the units affordable to very-low- income buyers. At this early stage in the program, the continued success of most of the projects will hinge on actively marketing the Nehemiah units, and keeping project costs under control.

Project Financing

Nehemiah sponsors are relying on a broad variety of short-term financing sources for supporting the development process. Most of these sources are local. Focusing exclusively on ***initial cash raised*** (i.e., excluding sales proceeds and miscellaneous internal sources of funds), private sources accounted for 26 percent of the total, while public sources accounted for 74 percent. Grants and other equity funds accounted for about 30 percent of initial resources raised, and debt accounted for 70 percent. Many sponsors had a great deal of difficulty lining up private construction loans, and therefore did not rely on them heavily. In fact, the high degree of phasing observed across the projects reflects in many cases a conscious strategy to minimize construction financing by using proceeds from earlier sales to support later phases of construction.

Non-Federal Sources of Funding

Almost all Nehemiah projects have received substantial contributions and financial support from non-federal sources in order to reduce sales prices. Typically, local governments have donated the land on which the projects are built, and sponsors have received a variety of other contributions of value (fee waivers, donated technical services, private donations and grants for operating costs, real estate tax deferrals or deductions, etc.). Several sponsors have also received considerable support from the Community Development Block Grant program for project administration and infrastructure development. Currently, it is estimated that these forms of support and capital subsidies have enabled Nehemiah sponsors to reduce sales prices from $88,755 per unit (the average cost to develop) down to $71,422—a discount of about 20 percent.

Development Costs and Construction Efficiencies

Construction and development costs are a major concern to all Nehemiah project sponsors because of their impact on sales prices and affordability. However, use of cost-saving designs and innovative technology are the exception rather than the rule. While in some sites designs have been obtained at a reduced cost, they typically reflect standard construction technology. Only three sites opted for modular, off-site construction methods: Baltimore, Chicago, and, more recently, Woonsocket. In fact, few sponsors had the management and marketing tools that are necessary to take full advantage of the efficiencies available from large-scale projects using modular construction techniques. None of the sponsors was able to estimate the savings (if any) directly attributable to low-cost designs, economies of scale, or to innovative construction techniques. It is important to note, however, that per-square foot construction costs for the Nehemiah units are comparable with industry standards in all but four sites, and they reflect savings over standard costs in three sites.

Total development costs average $88,755 per unit. Of this amount, $70,257 reflects out-of-pocket expenses and $18,489 reflects the value of in-kind contributions, including land. For most sites, current development costs are substantially higher than originally proposed, with a 22.5 percent increase for the average unit over the four-year life of the program. Many of the cost increases can be attributed to higher-than-expected site acquisition and preparation costs (particularly in Pittsburgh) and steadily rising construction costs. These changes have not, however, affected the share of costs attributable to the different components of development costs. These components are: site acquisition and preparation (17.5 percent), direct construction (66 percent), indirect construction (8.2 percent), and legal, organizational, and marketing expenses (8.2 percent). Their shares have remained relatively constant over time.

Sales Prices and Market Values

The relationship between total development costs, Nehemiah sales prices, and market values is of primary concern to Nehemiah sponsors. The difference between sales prices and the development cost is essentially a writedown, which must be covered from contributions or grants. The difference between sales price and market value can be an additional subsidy (if positive) or a potential liability (if the units are initially priced above their market values and there is no appreciation to boost prices when it comes time for the homeowner to sell.)

As shown in Exhibit ES-2, in all sites, per-unit total development costs are higher than the Nehemiah sales prices. On average, development costs exceed sales prices by $17,333; the amount of the gap ranges from $4,968 in Woonsocket to $68,220 per unit in Pittsburgh. In general, sales prices have been set to assure the affordability of units to the target homebuyers. At the same time, the Nehemiah sales prices are approximately $6,450 per unit higher, on

Exhibit ES-2

COMPARISON OF FULL DEVELOPMENT COSTS, MEDIAN NEHEMIAH SALES PRICES AND ESTIMATED MARKET VALUES

Site	Units	Total Development Cost/Unit	Typical Sales Price/Unit	Estimated Market Value/Unit	Direct Capital Subsidy
Baltimore	300	$88,515	$62,500	$45,000	$26,015
Shelbyville	18	53,153	29,667	32,000	23,486
Clairton	50	41,933	35,905	28,000	6,028
Gary	41	71,812	45,000	45,000	26,812
Chicago	169	86,248	73,040	73,000	13,208
Tifton	50	60,914	55,000	55,000	5,914
Woonsocket	50	108,968	104,000	110,000	4,968
Portland	250	87,331	75,720	75,000	11,611
Tuskegee	52	54,384	46,000	46,000	8,384
Pittsburgh	24	145,220	77,000	45,000	68,220
Washington	132	135,318	114,544	104,000	20,774
Des Moines	50	72,664	66,155	63,975	6,509
Aguadilla	Canceled				
Camden	Canceled				
Highland Park	Canceled				
All Sites	**1,186**	**$88,755**	**$71,422**	**$64,972**	**$17,333**
Percent of Total Development Cost		**100%**	**80%**	**72.8%**	

Source: Nehemiah sponsor estimates of projected full development costs and Nehemiah sales prices, local realtor estimates of market vales of comparable properties

* Averages are weighted by the number of units in each of the 12 sites

average, than local estimates of their current (unassisted) market values. In those sites where estimates of current market value are substantially below the Nehemiah sales price, ***the long-term issue of what families will do if they have to resell for less than the outstanding first and second mortgages has not been fully addressed.*** Part of this problem has been mitigated by an amendment to the Nehemiah legislation and regulations, permitting HUD to accept partial payments of the second mortgage if sales proceeds are not sufficient to make a full repayment. However, homebuyers may still lose their downpayment and other equity they may have contributed if market value remains far below the original sales prices.

Increasing Affordable Homeownership Opportunities

Information on the Nehemiah purchasers confirms that the program is serving very-low-income homebuyers. Virtually all projects include a large proportion of homebuyers whose incomes are less than 50 percent of the applicable median, and some of the projects are able to serve households with incomes as low as 25 percent of median. The average buyer has an income that is just 44 percent of the area median.

To serve this population, sponsors have arranged favorable financing for the homebuyers in addition to the Nehemiah second mortgages. These other mechanisms include: BMIR first mortgages (nine of twelve sites), typically from a state housing finance agency; forgivable third mortgages (three sites); and grants for closing cost and downpayment assistance (seven sites). Use of state or local loans is important not only because of the lower interest rates that may be obtainable from this source, but also because the Nehemiah statute required homebuyers to make a 10 percent downpayment ***unless the sponsor used government-sponsored loans with lower downpayment requirements***. In fact, the combination of low downpayment loans and downpayment assistance has resulted in very modest out-of-pocket costs for homebuyers at closing—about 4 percent of the sales price, on average. The monthly costs of the Nehemiah homes are also quite modest. In all but one site, monthly ownership costs (including utilities) are less than the Fair Market Rent for a similarly-sized rental unit. ***Homebuyers confirmed in focus group sessions that most are paying less to own their Nehemiah unit than they previously paid in rent.***

Homebuyer Characteristics

Exhibit ES-3 presents information on the characteristics of purchaser households. Overall, these households tend to be small, averaging 2.3 persons. About 60 percent are households with children, and nearly 70 percent are female-headed households. The site with the lowest proportion of households with children is Clairton, where many of the purchasers are

Exhibit ES-3

CHARACTERISTICS OF NEHEMIAH PURCHASERS

Site	(n)	Median Income	Average Household Size	Percent with Children	Percent Female-Headed	Average Age of Head	Race of Head			Percent Originally from Neighborhood	Percent Employed
							White	African/ American	Hispanic		
Baltimore	(300)	$17,935	2.3	62%	77%	39	0%	100%	0%	33%	97%
Shelbyville	(12)	11,215	1.7	NA	NA	NA	0%	100%	0%	100%	50%
Clairton	(24)	15,000	2.0	38%	54%	38	92%	4%	4%	21%	75%
Gary	(2)	23,859	2.0	50%	50%	35	NA	NA	NA	50%	100%
Chicago	(42)	23,458	3.2	69%	62%	37	0%	93%	7%	100%	96%
Tifton	(6)	22,464	3.0	67%	67%	41	0%	100%	0%	100%	83%
Woonsocket	(6)	32,408	3.5	100%	33%	38	100%	0%	0%	50%	100%
Portland	(25)	20,400	2.7	72%	64%	36	40%	60%	0%	76%	NA
Tuskegee	(2)	30,000	3.0	100%	100%	45	0%	100%	0%	100%	100%
All Purchasers	(419)	$18,000	2.3	60%	69%	38	9%	90%	1%	46%	88%

younger singles and older retirees. The average age of the household head is 38 years across all sites. The vast majority of purchasers are African-Americans, accounting for 90 percent of the total. Hispanics make up a very small percentage (1 percent), and whites account for the remaining 9 percent. Based on sponsor data, about half of the purchasers came from the neighborhoods where the Nehemiah projects are located; the other half were drawn from outside these areas. Compared to other neighborhood residents, the Nehemiah buyers tend to have substantially higher incomes, a higher proportion of minority households, and more female-headed households. Roughly 88 percent of the buyers are employed, with most of the remainder retired or disabled.

Subsidy Costs of Nehemiah Units

This study estimated the cost of achieving the high level of affordability illustrated above. Such affordability was made possible by a variety of subsidy mechanisms. Total subsidies include: (1) the present value of the Nehemiah loan subsidy; (2) the present value of any BMIR mortgage subsidies, which varied by site; (3) the value of the capital development subsidy (writedown); and (4) the value of any forgivable deferred loans and grants included in the project. Total subsidy costs averaged $29,062 per unit across all sites, and ranged from roughly $12,000 per unit in Tifton to nearly $97,000 per unit in Pittsburgh. Although the subsidy costs of the Nehemiah units are substantial, they do not appear to be out of line with subsidy costs for other programs for which data are available. It is also worth noting that the federal component of these subsidies (the value of the Nehemiah loan) is small—only about 20 percent of the total.

Housing cost-to-income ratios provide another perspective on subsidy costs. Such ratios serve as a standard measure of affordability and are used to set benefits in some programs. Although site averages fall between 20 and 30 percent in all sites except Tuskegee and Shelbyville, the distributions reveal that ***44 percent of buyers for whom data are available are paying less than 20 percent of income towards PITI.*** Indeed, 5 percent are paying under 14 percent, with several making monthly mortgage payments of only 5 to 10 percent of their incomes. While some of the lowest ratios are attributable to buyers with relatively high incomes, this is not always the case. This program not only serves very low-income purchasers, but also provides some buyers with housing at monthly costs that are lower than they are (theoretically) able to pay relative to standard rules of thumb. Future programs of this type may want to provide variable subsidies, so that the affordability level brackets some acceptable range. For example, the current standard for the HOPE 3 program is a PITI-to-income ratio of between 20 and 30 percent.

Purchaser Perspectives on the Program

As part of the second round of site visits for this study, members of the study team held focus group sessions in each site with Nehemiah purchasers and with groups of other neighborhood residents. Overall, the Nehemiah purchasers expressed a great deal of satisfaction with their Nehemiah units and with the "bargain" that they felt the units represented. As noted above, the cost of ownership for most buyers was less that they were previously paying for rent, and many of them felt that the Nehemiah program offered them a "once-in-a-lifetime" chance to own a home. Few buyers worried about being able to pay the Nehemiah loan back at sale (principally because few could envision moving), and most expected some appreciation of their homes if they stayed long enough.

Meeting Neighborhood Revitalization Goals

The statute creating the Nehemiah program identifies as one of its purposes "to undertake a concentrated effort to rebuild the depressed areas of the cities of the United States and to create sound and attractive neighborhoods." Such benefits could be stimulated by the physical impact of the construction of new or rehabilitated units, or by the long-term social impacts attributed to increased levels of homeownership (e.g., greater economic stability, improved maintenance, more resident involvement in community affairs), or by both. Assuming sufficient concentration and scale, the Nehemiah program can have a visual impact on distressed urban neighborhoods, can help to change attitudes, and may introduce a new group of residents who will lend their energies to neighborhood improvement efforts.

It is important to point out that few of the Nehemiah projects that received funding in 1989 attempted to replicate the large-scale, urban rebuilding approach of the original New York Nehemiah project. Rather, sponsors opted for smaller programs, typically on multiple or scattered sites. Thus, it appears that the Nehemiah model—large-scale contiguous construction, utilizing innovative building technologies and achieving sizable economies of scale—is not a development model widely suited to U.S. cities or to the nonprofits that are typically engaged in housing development efforts.

It is also important to note that in most of the sites there is some concurrent or coordinated improvement activity that, together with the Nehemiah units, can be expected to have a substantial impact on the project area. By contrast, in none of the sites analyzed in this evaluation—including Baltimore, the largest site—does the Nehemiah project alone appear sufficient to reverse the process of deterioration observed in these neighborhoods. Homebuyers, while typically optimistic about future values, often predicated their buying decisions and expectations of increasing values (and their ability to repay the Nehemiah loan) on continued public investment and improvements in the project area. There were, however, a few sites where the project could not be expected to have substantial impact even if all units were produced. These included Camden (where the project was too small relative to neighborhood needs), Aguadilla (which involved a very isolated site), and Woonsocket (where the neighborhoods in which the units are being built are working- and middle-class areas with little evident housing deterioration.)

Increasing Employment Opportunities

A final objective of the Nehemiah program was to increase employment opportunities for neighborhood residents. While a goal of the program, this has not been a major focus for most grantees. Employment outcomes have for the most part gone unmonitored and undocumented, although most sites believe that the program has produced some short-term construction jobs. (The exceptions include Baltimore, Chicago, Clairton, and Portland, where grantees say they are tracking and meeting their employment targets.) The potential conflict between employment and production goals is illustrated in Baltimore, where representatives of one neighborhood complained to HUD that the use of modular construction techniques would reduce the number of jobs on the project for neighborhood residents.

Administrative and Program Design Issues

Despite the positive results observed in the active Nehemiah sites, most grantees have experienced some difficulty and frustration with the Nehemiah program—either in complying with administrative requirements or as a result of design features they found unworkable in practice. The most serious early problems tended to involve the 25 percent pre-sale provision and the 10 percent downpayment requirement, both of which were mandated by the Nehemiah legislation. In the former case, the Fowler Amendment ultimately provided some relief by allowing sponsors to meet the requirement in phases, thus reducing the number of presales needed at any one time. In the case of the 10 percent downpayment requirement, most sponsors have been able to secure first-mortgage financing from state housing finance agency programs with more lenient downpayment requirements—frequently below 5 percent. In addition, future problems for homeowners whose properties do not appreciate may be mitigated by a recent amendment that provides for sharing future sales proceeds between HUD and the seller, and forgiving part of the Nehemiah loan, if sales proceeds are not sufficient to pay off the first mortgage, buyer's deposit, and HUD second mortgage.

Several sponsors stated that the administrative burdens and constraints stemming from the program legislation were disproportionate to the amount of Nehemiah money provided. Most sponsors felt that the program should have been more flexible in order to permit its adaptation to specific local circumstances and target populations. Although sponsors acknowledge that the Nehemiah funds were essential to their ability to offer affordable homeownership opportunities, most feel that they could have proceeded much faster with their programs and achieved a greater number of sales if there had been fewer restrictions. A number of these organizations have already been designated Community Housing Development Organizations for the local HOME program, and they are looking forward to the greater flexibility inherent in the homeownership component of the HOME program.

Finally, two out of every three first-round sponsors said they would have liked more guidance at the front end of their projects, to resolve design, financing, and site control issues, and/or to understand program rules and requirements better from the beginning. They emphasize the importance of technical assistance, both to design better projects and to anticipate difficulties they might encounter (such as pre-qualifying buyers). Under HOPE III and HOME, technical assistance offered by HUD may go a long way toward resolving many of the administrative and programmatic dilemmas encountered under the Nehemiah program.

CHAPTER ONE

BACKGROUND AND OVERVIEW OF THE NEHEMIAH PROGRAM

The Nehemiah Housing Opportunity Grant Program has been in operation since the fall of 1989, when 15 nonprofit sponsors were awarded the first grants. This report provides a summary evaluation of the accomplishments of those first projects as of mid-1993, nearly four years after grant award. The report is based on extensive conversations with project sponsors and with other key organizations involved in the evolution of the project in each locality, as well as on data collected from sponsor records, plus census and other secondary data. Site visits were conducted by the evaluation team in January through March of 1992, and again in the summer of 1993. During the second round of site visits, focus group sessions were held with households that had purchased Nehemiah units and (separately) with other residents of the surrounding neighborhoods.

The objectives of this report are to:

- integrate the findings from the two rounds of site visits;
- provide a comprehensive analysis of project history and implementation;
- identify early progress toward the ultimate program goals; and
- identify factors that are more likely to lead to successful programs.

The report does not attempt to provide a formal statistical analysis of program impacts, nor to explain in a quantitative way the relative success or failure of different types of projects. Rather, the intent is to describe and compare the progress of the 15 projects to date and to highlight various features and experiences of the projects that seem related to project status.

The comparison of progress across the 15 sites is organized in this report as follows:

- Project Organization and Characteristics of Sponsors (Chapter Two);
- Project Implementation (Chapter Three);
- Project Outcomes—Affordable Housing, Neighborhoods and Employment (Chapter Four); and
- Program and Policy Recommendations (Chapter Five).

In addition, two appendices are provided, containing a summary of the New York Nehemiah model and key features of the federal program (Appendix A), and a more detailed case study of the completed Baltimore project (Appendix B). It is hoped that lessons from the first-round Nehemiah projects may be useful for later ones, and for similar homeownership projects developed under other federal programs such as HOPE III, and HOME.

1.1 Description of the Nehemiah Program

Congress established the Nehemiah Housing Opportunity Grant Program under Title VI of the Housing and Community Development Act of 1987. The goals of the program were to increase homeownership among low- and moderate-income households, to improve neighborhoods in cities across the country, and to increase employment in those neighborhoods. The program was modeled after a successful low-income homeownership and neighborhood revitalization program that began in Brooklyn, New York. The New York program used a variety of public and private funding sources, along with low-cost construction techniques, to produce single-family units selling for $53,500 each. The units were made even more affordable to purchasers through interest-free second mortgages of up to $10,000 per unit provided by the City of New York. (See Appendix A for additional details on the New York model.)

Since its inception, there have been three funding rounds under the national Nehemiah program, providing a total of $60.2 million in grants to nonprofit organizations. Nehemiah grants are used to make loans to low-income families purchasing new or rehabilitated homes; they cannot be used to pay for the sponsors' construction costs. In the first round of funding in 1989, 15 grants were awarded, totaling $18.9 million for 1,323 units.[1] In the second round in 1990, 21 grantees received $21.3 million for 1,437 units. Finally, in 1991, a third round of 18 grantees received $20 million to develop 1,353 homes. The Nehemiah program was canceled after the 1991 round, and no new funding is anticipated. However, the results of this evaluation are still relevant, because many of the current Nehemiah projects are just getting underway, and because activities similar to Nehemiah may be funded under the HOME and HOPE III initiatives created by the 1990 National Affordable Housing Act (NAHA). The HOME legislation requires

1. Since grant award, three sites have withdrawn from the program, and two sites have reduced the number of units to be produced Expected production from 1989 grantees is now 1,186 units.

localities to set aside 15 percent of their funding for nonprofit groups to develop affordable housing. HOPE III awards grants to nonprofits and cooperative associations to acquire and resell government-owned single-family properties. NAHA also directs HUD to test and refine eight models for affordable housing, including a model under which local governments provide deferred-payment second mortgages to first-time homebuyers. In all of these cases, experiences under the Nehemiah program are directly relevant and can be instructive for both planning and implementation.

Under the Nehemiah program, HUD provides interest-free second mortgages to purchasers of new or rehabilitated homes. Nonprofit sponsors are responsible for securing all other funding and packaging the development program. While funds could be requested for up to $15,000 per unit, organizations were encouraged to minimize federal dollars through the competitive funding criteria, which awarded points to the projects with the maximum number of units for the least amount of federal assistance. In order to leverage state, local, and private involvement, program regulations forbid the use of Nehemiah grants in conjunction with other HUD subsidies except for CDBG funds. (However, families purchasing Nehemiah homes may use HUD mortgage insurance programs.)

Eligible Nehemiah sponsors are nonprofit organizations that have demonstrated the capacity to carry out the proposed program within a reasonable time period and in a successful manner. Applicants were further required to show that there was a demand for homes in the area to be served, that the proposed project was financially feasible, and that the applicant had control of the proposed site(s).

The Nehemiah program is designed to promote low-income homeownership, neighborhood revitalization, and employment of neighborhood residents. By reducing the costs of buying and owning a home, Nehemiah projects provide homeownership opportunities to households that would not otherwise be able to afford a home. Neighborhood improvement and employment objectives are reflected in program requirements for concentrated improvements and large projects (50 units or more), in the selection of projects in blighted areas, and in the requirements for resident involvement in the project. Presumably, by sponsoring large-scale residential investment in a Nehemiah neighborhood, grantees will create the conditions for additional community reinvestment, thereby reducing crime and increasing employment among neighborhood residents.

Since the initiation of the Nehemiah program, there have been two statutory changes, as well as numerous clarifications and waivers provided to grantees faced with difficult local circumstances. One of the most difficult statutory requirements to meet was that obligating grantees to sell 25 percent of the units ***in their entire project*** before being permitted to begin construction. The Fowler Amendment, passed in the fall of 1991, allowed grantees to begin the construction of units when 25 percent of the units ***in a phase...consisting of at least 16 homes*** were pre-sold. This amendment considerably reduced the pre-sale burden.

A second program amendment was created by Section 183 of the Housing and Community Development Act of 1992 that provides a "homeowner incentive" for sponsors of Nehemiah projects. The amendment provides that in the event of sale of a Nehemiah home at a price less than the buyer's downpayment plus the first and second mortgages, any funds remaining after repayment of the first mortgage and the seller's downpayment will be shared 50/50 with HUD until the Nehemiah second mortgage is paid in full. If the proceeds from sale or transfer are not sufficient to pay off the second mortgage in full, the second mortgage will be cancelled by HUD. This amendment reduces much of the risk that buyers originally assumed in purchasing a Nehemiah home in neighborhoods where the market value of the property was below its Nehemiah sales price.

A number of waivers have been granted to offset other regulatory requirements that proved difficult, if not impossible, for certain grantees to meet. Such waivers have involved, for example, the requirement that projects contain 50 or more units, that downpayments be at least 10 percent of sales price, that downpayments not be funded by any governmental entity, and that the project be completed in multiple phases. As of March 1992, 31 formal waivers of program rules had been issued by HUD for funded projects in all three funding cycles.[2]

2. HUD also issued 11 formal clarifications of regulations and policy for the Nehemiah program The subjects covered included: (1) Waivers of Rules (meaning and procedures), (2) 25 percent pre-sale requirement and display homes; (3) Down Payment Requirements; (4) Loan Repayment Provisions, (5) Ground Leases, Land Trusts, Restrictions on Resale Prices; (6) Selection of Homebuyers; (7) Debarred or Ineligible Participants; (8) Priority of the Nehemiah Loan; (9) Construction Standards; (10) Revised Lead-Based Paint Notification and Checklist for Document Submission; and (11) Homeowner Incentive Regulations. These clarifications addressed many of the program issues raised at the first Nehemiah conference, held in Chicago in November 1991. Additional procedural issues have been clarified regarding the roles of various HUD offices, approval of sales and loan documents, vouchers for requesting disbursement of Nehemiah funds, grantees' reports and audits, and post-closing procedures

1.2 Program Status

The first 15 Nehemiah grantees were selected by HUD in August of 1989. In the order of their relative progress to date (percent of units completed), they were:

Baltimore, MD	The Enterprise Nehemiah Development, Inc.
Shelbyville, KY	Federation of Appalachian Housing Enterprises, Inc.
Clairton, PA	Action Housing, Inc.
Gary, IN	Horace Mann-Ambridge Neighborhood Improvement
Chicago, IL	Bethel New Life, Inc.
Tifton, GA	Tifton County Residential Housing Corporation
Portland, OR	Northeast Community Development Corporation
Woonsocket, RI	Woonsocket Housing Development Corporation
Tuskegee, AL	Southeast Alabama Self-Help Association, Inc.
Pittsburgh, PA	Homewood-Brushton Revitalization Development Corp.
Washington, DC	The Trust for Public Land (w/Telesis)
Des Moines, IA	Des Moines Housing Council, Inc.
Aguadilla, PR	Aguadilla Community Development Corporation
Camden, NJ	Neighborhood Housing Services of Camden, Inc.
Highland Park, MI	Save Serve Strengthen Our Neighbors, Inc.

Descriptions of the sponsoring organizations and their projects are provided in Chapter Two. Overall, however, the sponsoring organizations are a diverse group in terms of real estate development experience, community involvement, technical expertise, political support, and administrative capacity—all features that appear related to the progress observed. Only one of the 1989 grantees, Baltimore, has completed its entire Nehemiah project. Nine others have completed some units, three have yet to begin construction, and three have dropped out of the program entirely. Exhibit 1-1 shows their status as of August 1993.

Overall, the 1989 Nehemiah grantees have progressed very slowly in the production of the Nehemiah units. The Baltimore project (the largest of the sites) was the first to be completed. Based on the percentage of planned units finished, the next closest site (at 72 percent) is Shelbyville—a small program of 18 units (down from 25 originally). This is followed by Clairton (48 percent complete), Gary (29 percent complete), and Chicago (25 percent complete). Rates in the remaining sites with any completions range from 8 percent in Tuskegee up to 14 percent in Tifton. Overall, as of mid-1993, the Nehemiah grantees had produced 37

Exhibit 1-1

NEHEMIAH GRANTEES: PROGRAM STATUS AS OF AUGUST 1993

Site	Number of Planned Units	Total Units Completed	Completions as a Percent of Planned	Units Occupied[a]
1. Baltimore, MD	300	300	100%	300
2. Shelbyville, KY	18	13	72	12
3. Clairton, PA	50	24	48	15
4. Gary, IN	41	12	29	2
5. Chicago, IL	169	42	25	37
6. Tifton, GA	50	7	14	7
9. Portland, OR	250	25	10	11
8. Woonsocket, RI	50	6	12	6
9. Tuskegee, AL	52	4	8	2
10. Pittsburgh, PA	24	0	0	0
11. Washington, DC	132	0	0	0
12. Des Moines, IA	50	0	0	0
13. Aguadilla, PR	Cancelled	0	0	0
14. Camden, NJ	Cancelled	0	0	0
15. Highland Park, MI	Cancelled	0	0	0
Total	**1,186**	**433**	**37%**	**392**

[a] In several sites, units have been completed but not occupied, either because the units have not been sold or the closings have not taken place.

percent of their planned units (excluding dropouts). Total production was 433 out of a planned 1,186 units.[3]

The three sites that have dropped out are Aguadilla, Camden, and Highland Park, for reasons that will be described in more detail in Chapter Two. Problems in Aguadilla included the loss of political support for the project due to the relatively large lot sizes involved. In addition, infrastructure and site development costs proved to be higher than originally proposed,

3. The total of all proposed units at application was 1,321 Reductions were made in the Pittsburgh and Shelbyville programs. In addition, three sites (accounting for 119 units) dropped out.

and three of the sponsor's board members had to withdraw from the project due to conflicts of interest. In Camden, the project sponsor expected to use approximately $24,000 per unit in grant funds from the New Jersey Balanced Housing Program. However, it turned out that the Balanced Housing Program, which includes resale restrictions, was judged to be incompatible with the Nehemiah program, forcing the sponsor to chose between the two funding sources. The problem in Highland Park was confusion and controversy over who would serve as the developer of the Nehemiah project. Although the application was submitted by the nonprofit SSSON (a new entity with no previous housing experience), the City of Highland Park considered itself to be the lead actor in the project. City actors believed that SSSON did not have the staff or financial capability to assume the role of project developer and, in fact, planned to bring in a for-profit entity to handle the development and management tasks. For its part, SSSON believed that it should have full involvement in all decisions, including selection of consultants and disbursement of funds. The impasse between the city and SSSON continued until the non-profit withdrew from the project in mid-1992.

Sites that remain in the program but have yet to start construction are Washington DC, Pittsburgh, and Des Moines. In Washington, the project is part of a larger development that will produce 239 units, including 139 Nehemiah units and 100 Housing Development Action Grant (HODAG) units. Extensive infrastructure improvements were completed in the fall of 1991, and 29 of the 100 HODAG units have now been constructed. Due to the softness of the real estate market, the Nehemiah units will not be started until the remaining HODAG units are finished. Construction start is scheduled for 1994, with completion of the Nehemiah units in 1995. In Pittsburgh, the major source of delay has been city remediation of environmental hazards on the proposed site. Remediation was completed in August 1993. As of October, the city had submitted plans for the site improvements (sewer and underground utilities) that will need to precede construction of the units. Assuming city and federal approvals are forthcoming, groundbreaking for the first units was expected to occur in November 1993. In Des Moines, 20 units were to be started in September and the balance through the following year.

Among the remaining nine sites, progress has been mixed. All but one of the Nehemiah grantees are well behind the schedules they submitted in their 1989 grant applications. Only one site, Gary, proposed a lengthy development period (five years); as a result, Gary is the only site that appears close to following its original schedule. In the other sites, development was to have been completed by the end of 1992—roughly three years from grant award in late 1989. It should be noted that there was considerable initial delay in getting the Nehemiah grant agreements signed and documents approved. Many sites also had difficulties getting clarifications from the program office regarding key elements of their program designs. However, even allowing 12 months of start-up time, the typical site is now nearly two years behind schedule. Causes for schedule delays are assessed more fully in Chapter Three. Many of the initial delays were related to the site acquisition or approvals (Pittsburgh, Washington); to problems meeting Nehemiah program requirements (Chicago, Clairton, Woonsocket) or securing clarifications and waivers (Tifton, Tuskegee); or to difficulties lining up financing (Portland, Des Moines). Once these problems were encountered and the programs began to stall, marketing problems resulting from the slowdown in the economy in 1991 and 1992 started to emerge. Altogether, six of the nine sites that started construction also experienced problems marketing the units and/or attracting qualified buyers. Baltimore is an important exception; there, sponsors were able generate a waiting list of 1,200 pre-qualified buyers for the 300 units to be produced under the program.[4]

1.3 Key Evaluation Issues

The principal evaluation issues for this report may be grouped into four categories: project organization and planning (focusing on the sponsors, the projects, and the neighborhoods); project implementation (including management of the development process); project outcomes (emphasizing affordable housing opportunities for low-income homebuyers, neighborhood revitalization, employment opportunities, and building nonprofit capacity); and policy recommendations for future homeownership programs. Concerning the first category, Chapter Two explores the theme of whether sponsors were prepared—through prior experience, current capacity, or planning—to undertake the projects they had initially proposed. Two related questions are whether the sponsors' previous experience provided a basis for predicting current

4. Even though it is the only site completed, the Baltimore project was still close to 20 months behind schedule. Delays at this site included a rather lengthy bidding process to select contractors, some delays in setting up financing and getting site clearance, and several unanticipated problems (such as the discovery that a portion of the final phase was located on a railroad right-of-way and community concerns about resident employment) that required negotiation and resolution among various actors; see Appendix B.

and future success, and whether the projects as proposed were likely to have the impacts intended under the program.

A second set of issues explored in this report concerns sponsors' experiences implementing their Nehemiah projects, and more specifically the degree to which they were in control of aspects of the development process. As discussed in Chapter Two, it is clear that many were not able to deal effectively with changes in local housing markets, including dwindling sales and shortages of construction financing. In addition to underestimating the need for aggressive marketing programs, many sponsors also did not anticipate the complexities of the development process and underestimated the costs involved. As a result, those sponsors who were able to adjust their programs to changing circumstances and to secure the financial and management support they required, survived—although at a higher-than-expected cost and with a much longer development period. Those who were not able to change withdrew from the program. A central issue here is how implementation practices among the 12 active projects affected development costs, sales prices and the value of unit produced, and whether any economies of scale (as in the New York model) were achieved.

A third set of issues concerns program outcomes with respect to the three legislative goals of the program:

- to increase affordable housing opportunities;
- to revitalize distressed neighborhoods; and
- to enhance employment opportunities in those neighborhoods.

In addition, Chapter Four provides a perspective on the characteristics of purchasers helped by the program, and the extent of subsidies needed to deliver program benefits.

A final topic discussed in this report is the relevance of the Nehemiah program for future low-income homeownership programs. Chapter Five addresses the lessons that can be learned with respect to enhancing the efficiency of similar programs, streamlining administrative operations of programs, and generally improving the performance of nonprofit sponsors of low-income housing.

1.4 Methodology

Most of the information provided in this report was obtained through in-person site visits to the 15 Nehemiah projects. An initial round of site visits was conducted over a period of three months, beginning in January 1992. Informal discussions were held at that time with the following actors and organizations at each site:

- Nehemiah sponsors (grantees)—Executive Director and staff;
- HUD Regional or Area Office Staff;
- City officials;
- Other members of the development team (builders, architects, contractors);
- Bankers providing funds for project; and
- Realtors.

Depending on the status of project development activities, the following additional information was obtained from project files:

- Detailed project characteristics;
- Project cost data (to the extent available);
- Project financing data;
- Buyer characteristics; and
- Marketing information.

The evaluation staff toured the Nehemiah neighborhoods to observe and collect information on the physical conditions of the project area and to visit homes under construction or already completed. The evaluation team also obtained the most recent available data from the Bureau of the Census on the housing and population characteristics of the census tracts in which Nehemiah projects are located.

A second round of visits was conducted in July through August 1993, roughly three-and-a-half years after the grant award. During this round, only sites that had begun construction were visited; the remaining sites were contacted by telephone to collect updated information on the status and costs of the project. During the 1993 site visits, interviews were conducted with the same actors as during the first round, and updated cost and homebuyer data were collected.

The evaluation staff also held separate focus group sessions in each site with purchasers of the Nehemiah units, and residents of the neighborhood who were not Nehemiah purchasers.

It is important to note that project data and available financial records for many of the Nehemiah sites are incomplete. One reason is that, in the majority of sites, there are few actual results (homes built and sold) to analyze thus far. Second, projects are continuing to evolve, so the current picture of development in most sites is still in flux. Finally, because the Nehemiah program does not mandate that nonprofit sponsors maintain or submit uniform financial data on their projects, the information that sponsors keep on file varies with respect to completeness and accuracy. Most projects, for example, do not keep up-to-date development pro formas showing funding sources used, or projected final development costs. Such pro formas had to be pieced together as a part of the research; in many cases, this required making projections based on the few units developed to date, plus sponsors' plans for the remaining homes.

The absence of a substantial number of completions in each site, and the lack of consistency in sponsors' handling of cost and other data, requires that most of the analysis of program outcomes be qualitative rather than quantitative in nature. Despite this, the implementation experiences and interim results in each site are instructive with respect to what is required to initiate, sustain, and deliver low-income homeownership programs effectively.

CHAPTER TWO

PROJECT MANAGEMENT AND CHARACTERISTICS

This chapter describes the characteristics of the 15 projects selected to receive Nehemiah grants in 1989 and the organizations that are sponsoring them. It examines a variety of factors that appear to be related to the current status of the Nehemiah projects, and/or to the likelihood that these projects will have the intended impact on the areas in which they are located. Such factors include:

- The capability and experience of the project sponsor and the level of political support for the project;
- The project's size and extent of spacial concentration;
- The neighborhoods in which the Nehemiah projects are located; and
- The characteristics of potential buyers targeted for the program.

We begin with a brief introduction to the 15 projects, including an overview of key project features and a summary of their implementation experience to date. As noted in Chapter 1, only one of the 1989 grantees had completed its Nehemiah project as of mid-1993, eight others had completed some units, three had yet to begin construction, and three had dropped out of the program entirely.

> ***Baltimore, MD:*** The Baltimore Nehemiah project, developed by a partnership of the Enterprise Foundation and a city-wide coalition of churches called BUILD, was the only Nehemiah project completed as of mid-1993. The project produced 300 units of housing, including 283 new construction, pre-fabricated townhouse units and 17 substantial rehabilitation units. The units, which sold for $62,500, are located in two severely deteriorated (adjacent) neighborhoods in West Baltimore. One of these—the Sandtown-Winchester neighborhood—has now become the focus of a massive planning effort (spearheaded by the city and Enterprise) to renovate roughly 670 abandoned buildings in the area and to "transform" the neighborhood through coordinated improvements in housing, health services, education, and job training.[1]

> ***Shelbyville, KY:*** The sponsor of this project is the Federation of Appalachian Housing Enterprises, Inc., based in Beria, Kentucky, about a 2-½ hour drive from the project site. The project involves both new construction and rehabilitation, although the number of new units has been reduced (along with the total unit count) due to the

1. See Appendix B for a detailed discussion of the Baltimore project

relatively high cost of new construction. Reductions in the unit count will also result in a larger per- unit Nehemiah subsidy (closer to $15,000 per unit than the approximately $10,000 originally planned.) To date, 13 of the 18 units have been completed. However, a great deal of effort over the past year has been devoted to qualifying buyers, since the first group of rehab units was acquired and rehabilitated without pre-qualifying the residents. The new units are selling for about $40,000, and the rehabilitated homes will sell for about $25,000. The project involves extensive infrastructure and site improvements provided by the city at no cost to the project. Completion was expected by the end of 1993.

Clairton, PA: The Nehemiah project in Clairton is being developed by Action Housing Inc. in a 450-unit townhouse development originally constructed as World War II housing. The 50-unit Nehemiah project is part of a larger 300-unit effort, which includes an additional 100 Section 8 (rental rehab) units and 150 other rehabilitated units, which AHI eventually hopes to sell to new, first-time homebuyers. The Nehemiah component will rehabilitate and sell 50 two- and three-bedroom units at an average sales price of about $37,000. To date, about half the units have been sold; the remainder will be completed as buyers are found. The Clairton project is unique among the 15 projects in that the units are sold to buyers "unimproved" so that the bulk of the financing can come from low-interest, county rehabilitation loans.

Gary, IN: Gary's project, sponsored by Horace Mann-Ambridge Neighborhood Improvement Organization (a neighborhood-based nonprofit) will produce 39 substantially rehabilitated units and two newly constructed units in two neighborhoods. The property is being donated by the City of Gary, and the rehabilitated units will sell for about $45,000. Gary initiated its project by building two new construction models (both single-family homes), which sold immediately. The sponsor has now completed its first segment of ten rehabilitated townhouses, but has yet to sell them. Additional construction will not take place until the first phase of townhouses is sold.

Chicago, IL: The Chicago project is being developed by an experienced, church-sponsored, community development corporation, Bethel New Life, Inc., as a part of a larger project that will produce a total of 250 single family dwellings. Bethel New Life will develop 169 Nehemiah units; however, the exact breakdown between new units and rehabilitated units is not certain. To date, the sponsor has completed 42 units (about a quarter of the total), but has run into problems qualifying buyers. Work has also been held up a result of two HUD suspensions of voucher payments—one, early in the project, due to Bethel New Life's failure to adhere to the statutory pre-sale requirement; and the second, a current suspension, pending the resolution of various audit findings by HUD's Office of Inspector General. The proposed units will be produced in four contiguous neighborhoods and are expected to sell at prices ranging from $70,000 to $86,000.

Tifton, GA: The Tifton project is being developed on a new subdivision site, formerly a peanut field, located on the outskirts of Tifton. The sponsor is the Tift County Residential Housing Corporation, which was created and is operated by the County

Community Development Agency. The project will produce 50 new construction detached single-family homes that will each sell for approximately $55,000. Purchasers will receive a $14,000 Nehemiah second mortgage, with first mortgages to be provided by the state housing finance agency or local lenders. To date, seven units have been built, and six of them have been sold. Delays are attributed to lack of marketing combined with the slowdown in the local economy. Future units will be produced one at a time as buyers are signed up.

Woonsocket, RI: The Woonsocket Nehemiah project was originally proposed as a condominium project, but has now switched to fee-simple ownership. It is being completed by the Woonsocket Housing Development Corporation in several middle- and working-class neighborhoods of the city. The project got off to a fast start, completing six of its proposed 50 units by mid-1990, although without meeting the program's pre-sale requirement. As a result of delays in signing the grant agreement, as well as time needed to resolve the pre-sale issue, many of the buyers for the original units gave up. Although the six units were eventually sold, the downturn in the market, turnover at the executive director level, problems with the original sites, and high cost overruns on the first units led Woonsocket to engage an experienced nonprofit development company, Community Builders, to assist in an overall program redesign. As of mid-1993, a second phase of nine units was planned, although both this site and a proposed 35-unit site have yet to receive final approval. Projected sales prices are now $104,000, more than 30 percent higher than the original six units.

Portland, OR: The Portland project is being produced in four contiguous Portland neighborhoods by the newly reorganized Northeast Community Development Corporation. The project entails 250 total units. Originally, 100 of the units were to have been new construction, and 150 were to involve rehabilitation; now, however, only about a quarter of the units will involve rehabilitation. The building sites and properties to be rehabilitated are scattered city and county-owned parcels within the four neighborhoods. It is projected that the completed units will sell for $76,000 on average. As of mid-1993, a total of 25 units had been produced. Initial organizational problems, plus low appraisals, plagued the project early on. However, under new leadership, and with additional funding commitments raised from a variety of sources, the project appears to have finally gotten underway.

Tuskegee, AL: The Tuskegee, AL project will consist of 52 units of new single family housing that will sell for between $48,000 and $50,000 each. The sponsor is the South East Alabama Self Help Association, Inc. (SEASHA), which has 25 years of housing and economic development experience. The Nehemiah houses are being built on a 15-acre tract owned by the sponsor adjoining a large Section 202 elderly housing project. Private contractors will build the housing and sell them on a "turnkey" basis. Permanent financing includes a BMIR loan from the State, a SEASHA third mortgage for the land, and the Nehemiah loan at $15,000 per unit. Four units have now been built. Future construction will be undertaken as buyers are signed up.

Pittsburgh, PA: This project is sponsored by the Homewood-Brushton Revitalization Development Corporation (HBRDC), which is experienced both in housing and economic development activities. The project was originally to produce 33 new construction townhouses on a single, cleared, urban site. This number has been reduced several times due to site density and unit size considerations, and now stands at 24. The project has been severely delayed due to the need for extensive remediation of petroleum-based contaminants on the city-owned parcel. As of August 1993, the City's Urban Redevelopment Authority (URA) had just completed the remediation work; approvals for site work were expected shortly, and construction was anticipated to begin in the fall of 1993. The proposed units reflect a small increase in price (now about $77,000 including closing costs). The sponsor has secured additional write-down funds, plus a larger city third mortgage, to help with affordablility.

Washington, DC: The Washington DC project is sponsored by the Trust for Public Land. A private development firm, Telesis Inc., is serving as the project coordinator. The project area is a 26-acre undeveloped parcel in SE Washington, the site of a now-demolished public housing project. The Nehemiah project (132 units) is part of a larger 232-unit new construction project and will consist of two-bedroom condominiums and three- and four-bedroom townhouse units. Units were initially priced from $84,000 to $145,000. In addition to Nehemiah funds, financing will include a BMIR first mortgage from the city and a subordinated third loan from the city. At present, construction has not yet begun on the Nehemiah units; however, site work is completed, and 29 of 100 other units proposed for the site have been built. Construction of the Nehemiah units will not begin until the remaining non-Nehemiah units have been completed.

Des Moines, IA: The Des Moines project consists of 50 new construction infill units being completed by the Des Moines Housing Council. The sponsor opted to hire a single developer to complete the units, with selection completed in early 1991. The homes will have four bedrooms and will sell for $60,000 to $70,000. The state will provide a BMIR first mortgage, the Nehemiah program is providing $15,000 per unit, and loans of up to $2,000 for downpayment assistance will be available. Construction on the first phase of 13 units was expected to commence in late 1993.

Aguadilla, PR: The Aguadilla project was planned for a 12-acre vacant tract on the edge of this Puerto Rican city. The sponsor was the Aguadilla Community Development Corporation. The project was to have consisted of 50 new construction single-family homes, with the Municipio of Aguadilla contributing the land, the project designs, and a number of infrastructure improvements (including recreation facilities and a community center) using CDBG funds. A variety of early problems resulted in this project's cancellation in 1992.

Camden, NJ: The Camden project was to have been developed by a local neighborhood housing services (NHS) organization that was newly incorporated in 1989. The project was to have involved 17 units of substantial rehabilitation, scattered throughout a severely distressed neighborhood. The grant was ultimately cancelled because much of the construction cost was to have been covered by grant funds from the New Jersey State Balanced Housing Fund. Balanced housing requirements, which included resale restrictions, were judged by HUD to be incompatible with the Nehemiah program, and as a result the sponsor opted to proceed with state financing and to return the Nehemiah funding.

Highland Park, MI: The Highland Park project was proposed by a newly incorporated nonprofit organization, Save Serve Strengthen Our Neighbors, Inc. (SSSON). The units were planned for vacant parcels located in this city, which is surrounded by the City of Detroit. The project was intended to produce 44 to 52 new construction, two- and three-bedroom townhouses selling in the $60,000 to $70,000 range. From the outset, the project suffered from disagreement between SSSON and the city about who would be responsible for developing the units, and by mid-1991 the site had dropped out of the Nehemiah program.

2.1 Sponsor Experience and Project Support

One of the key factors believed to influence the success of Nehemiah projects is the capacity of the sponsors to plan and execute them. This section discusses the characteristics and missions of the Nehemiah sponsors, exploring their housing development experience and other organizational factors that may be related to their progress under the program. To date, the larger and more experienced organizations do appear to have made more progress towards completing their projects and have demonstrated greater ability to overcome the various administrative, technical, and financial difficulties associated with project start-up.

Sponsor Type, Mission, and Experience

The 15 nonprofit organizations that received Nehemiah grants in 1989 are primarily local community development corporations or housing-oriented, community-based organizations. Exhibit 2-1 lists sponsor types, service areas, age, staff size, and annual budget for each of the grantees. As shown, 11 of the 15 nonprofits are local in nature. Many of these are neighborhood-based, such as Homewood-Brushton Revitalization and Development Corporation (HBRDC) in Pittsburgh, PA; the Northeast Community Development Corporation (NECDC) in Portland, OR; and the Horace Mann-Ambridge Neighborhood Improvement Organization (HMANIO) in Gary, IN. Two of the grantees operate city- or county-wide, and two others have multi-county or regional service areas. Finally, two of the Nehemiah projects involve national organizations: the Enterprise Foundation in Baltimore and the Trust for Public Land (TPL) in Washington DC.

With respect to organizational mission, six of the 15 organizations have housing as their exclusive focus. The remaining nine are multipurpose CDCs with a range of other activities, including economic development activities, social services, training and/or employment. Bethel New Life in Chicago and HBRDC in Pittsburgh are the two broadest organizations in this respect. Bethel describes its approach as "holistic" and has become involved in a variety of programs and activities related to housing, health, social services, and economic development. HBRDC has pursued numerous commercial redevelopment projects and has most recently undertaken the purchase and operation of a radio station in its neighborhood.

As shown in Exhibit 2-1, the oldest sponsoring organizations (Action Housing Inc., in Clairton and SEASHA in Tuskegee) have been operating for over 25 years. Of the remainder, five organizations are between ten and 15 years old; four are between five and ten years; and four are fewer than five years old. It should be noted that the Enterprise Foundation is considered to be the project developer in Baltimore. Although a separate legal entity was created to serve as the grant recipient, the project draws on Enterprise Foundation staff, expertise, and reputation. In Washington on the other hand, the official sponsor plays a passive role; Telesis, a private for-profit organization (along with a nonprofit subsidiary) serves as the project's developer. Therefore, it is Telesis's experience that is most relevant to the success of the project.

Exhibit 2-2 shows sponsors' development experience in terms of housing units previously produced, along with their current status under the Nehemiah program. As indicated in the exhibit, there are several highly experienced organizations among the group. The Enterprise Foundation, for example, has completed or sponsored many thousands of low-income housing units nationwide, with over 400 in Baltimore alone. AHI in Clairton has also developed more than a 1,000 units, with a recent emphasis on housing for special needs populations. Other highly experienced organizations include Bethel New Life (Chicago), Telesis (DC), and SEASHA (Tuskegee), all of which have previous development experience exceeding 500 units. Organizations with more modest experience include the Des Moines Housing Council (at 313

EXHIBIT 2-1

NEHEMIAH SPONSORS

Site	Nonprofit Name	Service Area	Incorporation Date	Staff Size	Annual Budget	Activities Other Than Housing
1 Baltimore, MD	The Enterprise Nehemiah Development, Inc. (Enterprise-/BUILD)	National	1981 (Enterprise)	143	$7,146,000	Housing only
2 Shelbyville, KY	Federation of Appalachian Housing Enterprises, Inc (FHAE)	Regional	1982	4	60,000	Technical assistance Loans to members
3 Clairton, PA	Action Housing, Inc (AHI)	Local	1957	70	3,800,000	Housing only
4 Gary, IN	Horace Mann-Ambridge Neighborhood Improvement Organization (HMANIO)	Local	1979	0	63,000	Education Employment
5. Chicago, IL	Bethel New Life, Inc	Local	1979	400	10,000,000	Economic development Social services Health
6 Tifton, GA	Tift County Residential Housing Corporation	Local	1988	1 (PT)	0	Housing only
7. Woonsocket, RI	Woonsocket Housing Development Corporation (WHDC)	Local	1988	1	61,550	Housing only
8 Portland, OR	Northeast Community Development Corporation (NECDC)	Local	1984	8	530,000	Job training programs
9 Tuskegee, AL	Southeast Alabama Self-Help Association, Inc (SEASHA)	Multi-County	1967	13	1,200,000	Economic development
10 Pittsburgh, PA	Homewood-Brushton Revitalization Development Corporation (HBRDC)	Local	1983	20	424,000	Economic development Commercial development Human development
11 Washington, DC	The Trust for Public Land (TPL)(w/Telesis)	National	1985 (Telesis)	12	NA	Housing only
12 Des Moines, IA	Des Moines Housing Council, Inc	Local	1978	5	238,000	Housing only
13 Aguadilla, PR	Aguadilla Community Development Corporation (ACDC)	Local	1978	2 (PT)	0	Economic development Social services
14 Camden, NJ	Neighborhood Housing Services (NHS) of Camden, Inc	Local	1988	2	138,000	Community coordination
15 Highland Park, MI	Save Serve Strengthen Our Neighborhoods, Inc (SSSON)	Local	1988	NA	NA	Job training

EXHIBIT 2-2

NEHEMIAH SPONSORS: RANKING BY PREVIOUS EXPERIENCE

	Experience		Project Status as of August 1993		
Sponsor	Previous Production	Tercile Group	Nehemiah Units Completed	Percent Completed	Other
Baltimore, MD	8,000+	HIGH	300	100%	
Clairton, PA	1,000+	HIGH	24	48%	
Chicago, IL	800+	HIGH	42	25%	
Washington, D.C	653	HIGH			Nehemiah units to follow 100 HDG units, of which 29 are complete.
Tuskegee, AL	561	HIGH	4	8%	
Des Moines, IA	313	MODERATE	0	0%	Construction started in late 1993.
Woonsocket, RI	67	MODERATE	6	12%	
Pittsburgh, PA	22	MODERATE	0	0%	Site remediation completed in mid 1993.
Tifton, GA	11	MODERATE	7	14%	
Portland, OR	8	MODERATE	25	10%	
Gary, IN	3	LOW	12	29%	
Shelbyville, KY	0	LOW	13	72%	
Aguadilla, PR	0	LOW	0	0%	Dropped Out
Highland Park, MI	0	LOW	0	0%	Dropped Out
Camden, NJ	0	LOW	0	0%	Dropped Out

units) and the Woonsocket Housing Development Corporation (at 67 units).[2] The remaining eight sponsors have built fewer than 25 units each, including four organizations that had no development experience prior to the Nehemiah project.[3]

It is probably not surprising that the three largest and most experienced sponsors (Enterprise in Baltimore, AHI in Clairton, and Bethel New Life in Chicago) have relatively high completion rates. Altogether, four of the top five sites in terms of experience have completed at least some units. While Telesis in Washington, DC, has yet to produce any Nehemiah units, this project has required a great deal of infrastructure work and is in the process of producing 100 other units prior to beginning the Nehemiah segment.

While half of the sites with moderate or low levels of experience have managed to complete some units, the influence of experience appears to be felt most strongly at the extremes. Of the four organizations with no previous development experience, three have dropped out of the program entirely. Further, similarities among these three sites show the importance—and interaction—of factors such as experience, organizational stability, program understanding, and political support in completing a complex development project such as those being produced under the Nehemiah program.

For example, the ***principal*** reason that Neighborhood Housing Services (NHS) of Camden was not able to use the Nehemiah funds was a conflict between Nehemiah program rules and those of the New Jersey State Balanced Housing Program. However, the Camden project also suffered from a number of other problems that impeded its progress from the beginning. These included organizational instability (NHS had three executive directors between 1988 and 1992) and internal conflict over the mission of the organization. In addition, it appears that the organization suffered from a poor political relationship with the Camden Redevelopment Authority, stemming largely from misunderstandings about the respective roles of the two actors in shaping the neighborhood's revitalization. A final impediment in Camden was difficulty in

2. Note, however, that Woonsocket's previous development effort was as a passive limited partner, and thus probably overstates the organization's experience relative to this project.

3. Data assembled by the National Congress for Community Economic Development (NCCED) show that, for a group of 992 nonprofit CDCs surveyed in 1991, the mean lifetime housing output was 230 units. By this standard, six of the Nehemiah sponsors could be classified as having above-average experience, and nine below-average experience. See NCCED, *Changing the Odds: The Achievements of Community-Based Development Corporations*, December 1991.

finding construction financing. This was apparently due, at least in part, to the previous NHS director's desire to complete a sizable "development project" and a resulting unwillingness to break the project into several, smaller phases. However, under the leadership of a new director who had previous building experience, the organization was able to build and sell two houses in 1992 (using state funds and no Nehemiah funds) and to line up financing for a second phase of state-funded units.

The immediate cause of Aguadilla's Community Development Corporation's (ACDC) inability to use the Nehemiah funds was the withdrawal of political support from the project by the city, primarily the result of a 60 percent increase in the required lot sizes (an FHA requirement); this, according to the mayor, would result in providing assisted-households with homes on lots that were significantly larger than those of typical middle class families. Loss of political support was terminal in this case, since the Aguadilla sponsor had no staff or financial capacity to complete the project without the direct support of the City. However, organizational problems and program misunderstandings also played a role in the failure of this project. Early on, three of the six ACDC board members were forced to resign from the project due to a conflict of interest (having worked for the Municipal Council). The mayor and ACDC also appeared to have misunderstood the nature of the Nehemiah program, believing that Nehemiah funding was a grant to the sponsor that could be used for pre-development and construction costs.

The Highland Park project clearly suffered from political problems, since the city staff did not perceive the organization as capable of serving as project developer and was determined to keep control of the project itself. However, the project was also plagued by misunderstandings about the nature of the Nehemiah grant and the requirements of a successful development project. As in Aguadilla, the sponsor thought that Nehemiah funds could be used for construction. In addition, there were fundamental marketing and feasibility problems with the proposed design.

Unfortunately, misunderstandings about the nature of the Nehemiah grant were not uncommon among the first-year grantees. In addition, many of the 12 continuing sites had difficulty with specific program requirements (including two programs suspended for failure to meet the pre-sales requirements), and virtually all of them suffered marketing problems as a result of the economic downturn of the last several years. However, while these sponsors ran into some serious problems, they also appear to have been better able to persevere. This appears to be related both to the strength of the organizations themselves and to their ability to garner sufficient political support to make the projects work.

Political and Financial Support

All else being equal, the level of local political support (and associated financial backing) should have an impact on the successful completion of Nehemiah projects. Almost all of the Nehemiah projects have received solid political support from local officials, backed by land donations and substantial financial commitments. In fact, in six of the sites (Tifton, Aguadilla, Shelbyville, Gary, Highland Park, and Pittsburgh), it was a local government official who first approached the sponsor about applying for Nehemiah funds.

While initial support for the Nehemiah projects was uniformly high, in several cases it waned when the project encountered difficulties. For example, support in Portland lagged over the first two years of the project, due both to control issues and an overall lack of progress. Now, however, good relations appear to be returning as the project gets underway with new leadership and the firm support of the financial community. In Woonsocket, local community enthusiasm declined as the project encountered trouble and the housing market contracted.

In the three sites that are ***not*** expected to complete their Nehemiah projects, lack of political support played a key role. The withdrawal of the mayor's support in Aguadilla was sufficient to scuttle the project. In Camden, the NHS continues to suffer from a poor relationship with the Redevelopment Authority (which has now adopted a "hands-off" approach to the organization) and has had to fight for city CDBG funding for the project. In Highland Park, open conflict between the sponsor and the city over control of the project led to the nonprofit's withdrawal.

In contrast to these situations, there are several instances where city government and other local actors have gone to extraordinary lengths to make a Nehemiah project succeed. An example is Clairton, where a conflict between HUD and the nonprofit over the timing of rehabilitation resulted in HUD's refusal to honor the first 14 vouchers submitted on behalf of new homeowners. To keep the project afloat, the county Redevelopment Authority amended a construction loan agreement with AHI, allowing the sponsor to provide interim loans on the same terms as Nehemiah until HUD paid the vouchers.

The City of Baltimore provides an example of extraordinary support to the Nehemiah project. In addition to providing deep subsidies for construction and homeowner financing, the city made the project one of its top priorities, providing expedited processing and approvals and holding bi-weekly staff meetings (with and without the developer) to assure coordination among agencies. This unusual effort was due to the project's high visibility, the political clout of the sponsors, and the fact that, as part of his campaign, the mayor had made a public commitment to completing the project.

Pittsburgh provides yet another example where high levels of city support have been essential to the project. In this case, city technical support has been provided to deal with site contamination problems, and city CDBG funds are being used to cover the increased costs of remediation. Also, to help remedy financial feasibility problems (the originally committed financing sources, including Nehemiah, were not sufficient to produce an affordable first mortgage), the sponsor has received a commitment of increased third mortgage funds from the city, as well as grant funds from a local bank.

In addition to political support for the project from local government, lender support and participation can be important as well. As will be discussed in more detail in Chapter 3, however, private lenders have played a fairly modest role in the program overall. In terms of construction financing, local banks are involved in Gary, Chicago, Woonsocket, Portland, and Pittsburgh. In Pittsburgh, the Pittsburgh National Bank continues to be very supportive of the project (despite substantial delays), and is now providing a small amount of grant funds to the sponsor in addition to providing a construction loan. PNB's support may reflect the fact that the bank, the Redevelopment Authority, and HBRDC had previously teamed up to produce a very similar townhouse project completed in 1993. The sponsor in Woonsocket has been less successful in its banking relations, however. Here, after cost and marketing problems emerged in the first set of units, one local lender had to write off the unpaid balance of its Nehemiah construction loan. Not surprisingly, local institutions became wary of continued participation, even though the city continued to support the project with staff time and operating funds. Woonsocket has now requested a large construction loan from a private source to continue the project, but no commitments have been made. Finally in Portland, a consortium of lenders is providing about $2 million in construction loans, in part to help satisfy Community Reinvestment Act requirements. However, to protect this investment, the lending agreement requires the sponsor to have 1.4 approved buyers for each unit under construction before drawing down construction funds.

Private lenders are also participating as permanent mortgage lenders in a few sites; however, the majority of sponsors are using bond-financed mortgages from state housing finance agencies. In this case, lenders are involved as originators and servicers. In one site, Shelbyville, the local lender also agreed to screen applicants for the project sponsor, whose offces are located a 2-½ hour drive from the project site.

2.2 Project Scale and Characteristics

This section describes the physical characteristics of the Nehemiah sites and the housing to be produced. It also addresses the extent to which the Nehemiah projects incorporate design features of the original New York City model (large-scale development, contiguous parcels, economies of scale, value engineering or other cost saving construction approaches) and the ways in which the local program designs promote (or frustrate) the attainment of neighborhood improvement goals.

Project Size

Exhibit 2-3 presents data on the overall size of the 15 Nehemiah projects, the breakdown of units by bedroom count, the type of construction used, and the type of structure involved. The 15 projects range in size from 17 to 300 units, and (if all had been completed) would have produced 1,305 units of affordable ownership housing. The three projects that have dropped out of the program account for 119 units, bringing the projected total down to 1,186.

The planned size of the project has changed in only two sites. In Pittsburgh, environmental reviews suggested a reduction in density from 33 to 26 units, and marketability concerns later led the sponsor to reduce the density further, and to set the program size at 24 units. Shelbyville reduced the size of its program from 25 to 18 units, in part because it needed to use more Nehemiah funds in each unit ($15,000 as opposed to the approximately $10,000 originally proposed) to achieve affordability goals while covering project costs.

None of the sponsors is engaged in a project of the scale represented by the New York Nehemiah model (which contained 1,250 units). The national program set minimum size thresholds based on city size, ranging from a 50-unit minimum (in cities with 20,000 or fewer

EXHIBIT 2-3

PROJECT CHARACTERISTICS

Site	Total Units	1 BR	2 BR	3 BR	4+BR	Construction Type		Structure Type		
						New	Rehab	SFD	Row/TH	Other
Baltimore, MD	300		1	293	6	283	17		300	
Shelbyville, KY	18	2	5	11		3	15	18		
Clairton, PA	50		30	20			50		50	
Gary, IN	41		11	30			41	2	39	
Chicago, IL*	169			141	28	144	25		144	25
Tifton, GA	50			50		50		50		
Woonsocket, RI	50		4	46		50		44	6	
Portland, OR*	250		20	220	10	187	63	210		40
Tuskegee, AL	52			52		52		52		
Pittsburgh, PA	24			24		24			24	
Washington, DC	132		12	105	15	132			120	12
Des Moines, IA	50			50		50		50		
Aguadilla, PR	(50)	(5)	(5)	(35)	(5)	(50)		(50)		
Camden, NJ	(17)		(8)	(9)			(17)		(17)	
Highland Park, MI	(44-52)		(44-52)			(44-52)			(44-52)	
Totals	**1,186**	**2**	**83**	**1,042**	**59**	**975**	**211**	**426**	**683**	**77**

SFD = Single Family Dwelling; Row/TH = Row or townhouse; Other includes condominiums and duplexes.

* Estimate based on current distribution of units constructed.

units) to a 250-unit minimum for cities with over 100,000 units. Most programs selected the minimum or requested waivers for smaller programs.

- The four largest projects are being developed in Baltimore (300), Chicago (169), Portland (250), and Washington (132). In both Chicago and Baltimore, the sponsors were explicitly attempting to replicate the large-scale redevelopment model of New York.
- Seven sites (Clairton, Tifton, Woonsocket, Tuskegee, Des Moines, Aguadilla, and Highland Park) proposed programs at the 50-unit minimum.
- Four of the 15 (Shelbyville, Gary, Pittsburgh, and Camden) opted to seek waivers to produce fewer than 50 units.

In general, grantees proposed projects at a smaller scale than that envisioned in the Nehemiah legislation. Also, most grantees further subdivided their projects into multiple small development phases (see below). Absent the program minimum and waiver requirements, it is likely that additional sponsors would have proposed projects of under 50 units, in order to avoid the financial risks, technical problems, and marketing issues of large-scale development. As a consequence, the cost advantages of larger projects (e.g., volume purchasing, long-term fixed-price contracts with subcontractors and suppliers, stable designs, fewer change orders) were lost.

Unit Sizes and Construction Types

Characteristics of the projects varied somewhat by market. However, the vast majority of units to be produced under the Nehemiah program are new three-bedroom townhouses or detached homes. As shown in Exhibit 2-3, construction of one-bedroom units is negligible (less than 1 percent), two-bedroom units account for about 7 percent of the total, three-bedroom units predominate at 88 percent, and four-bedroom units account for about 5 percent of the total. Since submitting their proposals, over half of the sponsors changed the mix of unit sizes to be produced. This occurred either for marketing reasons (greater demand for three-bedroom units in several sites) or because the project involved the rehab of units that were not yet specifically identified.

The majority of sponsors (12 out of the original 15) opted for new construction, although four will undertake some rehabilitation units in addition to new construction. Only three sites (Gary, Clairton, and Camden) planned to do rehab exclusively. Of the 1,186 units currently proposed, 88 percent are to be new construction, and 18 percent are rehab. The majority of the units to be produced (58 percent) are row or townhouse units, but 36 percent are detached single family homes. Only 6 percent are other types (condominium units in DC, duplexes in Portland, and a proposed apartment building rehab in Chicago).

Site Considerations and Spatial Layout

In addition to fostering large-scale production, the Nehemiah program was expected to concentrate development in contiguous parcels on a few concentrated sites. As in New York, the combination of large scale and concentrated development was intended to result in economies of scale (i.e., lower per-unit costs from construction efficiencies and bulk purchase) as well as to maximize neighborhood impacts.

Exhibit 2-4 provides information on the sites proposed by the 15 first-round grantees. Most projects are being developed in a single neighborhood; exceptions are the larger projects in Baltimore, Portland, and Chicago, as well as Woonsocket's program (which involves three neighborhoods). Exhibit 2-4 also indicates whether the units in the program are contiguous[4] and provides a brief description of the site(s). In general:

- Of the 15 grantees, six planned to complete projects on a ***single parcel or site***. Three of these (Tifton, Aguadilla, and Tuskegee) planned to build on undeveloped rural or semi-rural tracts. Three other projects (Washington DC, Highland Park, and Pittsburgh) were to be built on cleared urban sites.
- Baltimore and Woonsocket are using a small number of ***separate sites in multiple neighborhoods***. In Baltimore, the project is split between two adjacent neighborhoods. However, the bulk of the units (227) are located in one neighborhood (Sandtown-Winchester) on contiguous lots including the site of a former bakery. Unlike Baltimore, Woonsocket's project is small (50 units); project sites in the three neighborhoods will have six, nine, and 35 units, respectively.
- The remaining seven projects involve ***scattered sites*** with varying degrees of concentration. For example, Gary's 41 rehab units will be concentrated over three or four blocks; similarly, the 18 units in Shelbyville are closely located. Portland, Chicago, Des Moines, and Camden are all scattered or infill units, though in Chicago and Portland there is an explicit effort to select sites strategically (for marketability and security), and concentrate improvements where possible. Portland selects its properties from tax foreclosed parcels owned by the county.

4. The program has a special definition for contiguous sites: it includes abutting parcels and those divided by natural or man-made boundaries (such as roads), as well as closely located parcels separated by less than two city blocks.

EXHIBIT 2-4

SITE CHARACTERISTICS

Site	Number of Neighborhoods	Contiguous Y/N	Description
1. Baltimore, MD	2	Y	Contiguous blocks in two urban neighborhoods
2. Shelbyville, KY	1	Closely located	Multiple sites (rehabs and vacant lots) within three blocks of each other; mostly contiguous; non-metropolitan
3. Clairton, PA	1	Closely located	Scattered units within 450-unit townhouse development; larger project will address 300 of 450 units.
4. Gary, IN	1	Closely located	Multiple townhouse rows concentrated in three to four city blocks
5. Chicago, IL	4	N	Scattered sites within four neighborhoods. Sponsor is attempting to select units strategically and concentrate improvements in clusters.
6. Tifton, GA	1	Y	New subdivision in a peanut field
7. Woonsocket, RI	3+	N	Various sites in three neighborhoods
8. Portland, OR	4	N	250 scattered rehab and new infill units within 1,500 city blocks
9. Tuskegee, AL	1	Y	Single semi-rural parcel owned by the sponsor
10. Pittsburgh, PA	1	Y	Single urban parcel
11 Washington, DC	1	Y	Single large urban redevelopment parcel
12. Des Moines, IA	1	N	Infill construction for 50 of 70 vacant lots in neighborhood
13. Aguadilla, PR	1	Y	Single rural parcel
14. Camden, NJ	1	N	Scattered units in 2,000-unit neighborhood.
15. Highland Park, MI	1	Y	Single urban renewal parcel

Finally, Clairton is something of a special case, in that the Nehemiah units are scattered within a 450-unit townhouse development, most of which is being rehabilitated by the sponsor.

Overall, roughly half of the first-year grantees opted for scattered or multiple-site designs, as opposed to the contiguous and concentrated development model implied by the program. This is not particularly surprising, given the uniqueness of the New York situation and the difficulty of assembling large tracts in most urban areas. It does, however, suggest that New York model may not be replicable in other locations. The sites that most closely match the New York model were Baltimore (involving a sizeable number of manufactured homes in a concentrated urban site) and Washington (where new units will be built on a single large redevelopment site).

Economies of Scale and Cost-Saving Construction Techniques

One of the special features of the New York Nehemiah project was the savings attributable to economies of scale through the use of cost-cutting, mass construction technology. Among the first round of Nehemiah projects, however, there appears to be little emphasis on this aspect of the program. The potential for savings due to economies of scale is reduced by the phased development plans adopted by the sponsors. The largest phases are in Baltimore and encompass between 50 and 75 units. About a third of the sites planned construction phases of 15 or fewer units, and another third expect a stable monthly output or expect to build new units only as others are sold. Potential savings have also been reduced in sites where contracts are divided among multiple builders or units are built in scattered locations. Given the risks of large-scale production and difficulties of assembling large tracts of land, versus the potential construction cost savings, it appears that most sponsors have opted for the lower-risk strategy.

Cost-saving designs and innovative technology are also the exception rather than the rule. In many sites, designs have been obtained at little or no cost (from a magazine in Tifton, from FmHA designs in Des Moines, from the builders themselves in Chicago), and reflect standard construction technology. One site (Des Moines) had expected that manufactured housing would be a possibility, but only received bids for stick-built construction. The few sites that reported implementing significant cost-saving designs or construction methods include:

- Baltimore: Large-scale production to achieve economies of scale and off-site modular production have helped to reduce construction costs and vandalism.

- Chicago: Prefabricated wall panel units, floors, and other components for stand-alone and semi-detached townhouses manufactured off-site.
- Woonsocket: Faced with high cost overruns on its first six units, the sponsor has turned to a prefabricated design that can be assembled in less than one week and will cost less than $40,000 per unit delivered to the site. (However, high infrastructure costs in Woonsocket will offset these cost savings substantially.)

None of the sponsors was able to estimate savings directly attributable to any economies of scale, or to innovative design or construction techniques, although the units in Baltimore have been delivered at a cost per square foot that is 16 percent below prevailing local construction costs ($35 per square foot versus $42 per square foot).

2.3 Neighborhood Context

The neighborhoods in which Nehemiah projects are located play a major role in determining the shape of the program, the design of the units, the prices of the homes, and ultimately the outcome of the project. Small projects in large, severely impacted urban neighborhoods may not survive in terms of real estate values and stable ownership. However, large, complex projects in changing inner city neighborhoods are likely to be more difficult to organize and implement successfully. On the one hand, the negative attitudes that feed neighborhood disinvestment and decline are more difficult to change the larger the area that is affected. On the other hand, because of the diversity of some of these areas and their relatively good access to central business districts and to jobs, the opportunities for major reinvestment are significant. This section focuses on the factors of risk and opportunity that make up the neighborhood context for the 15 Nehemiah projects.

Neighborhood Conditions, Crime Levels, and Unemployment

Exhibit 2-5 provides summary information on neighborhood conditions, crime rates, and unemployment rates. Information on general conditions is taken from program applications (which required a description of blight), as updated by site visits. Crime statistics are taken from the applications, and unemployment data is taken from the 1990 census.[5]

5. For the purpose of this analysis, census tracts or combinations of census tracts are presumed to correspond to neighborhood boundaries

EXHIBIT 2-5

NEIGHBORHOOD CONDITIONS

Site	Neighborhood Quality	Crime Rate*	Unemployment Rate
Baltimore, MD	Blighted, stagnating area. Over 670 abandoned and boarded-up homes. High levels of substandard occupied housing.	Penn North 7.8% Sandtown 7.4%	16.1%
Shelbyville, KY	Units require rehab/clearance. Dilapidated housing, vacant structures, lack of sewers.	3.3%	3.3%
Clairton, PA	Severe neglect and deterioration of infrastructure, large number of vacant rowhouses.	3.2%	6.0%
Gary, IN	Abandoned housing in deteriorated residential area. City services lacking, park facilities inadequate.	Harrison-Grant 6% Downtown West 6%	26.0%
Chicago, IL	Severe disinvestment since the 1970s; widespread abandonment, littered lots, vacant, boarded-up, single- and multi-family dwellings; high crime and high unemployment.	West Garfield 21.8% North Lawndale 8.1% Near West Side 15.3% Austin 6.4%	25.0%
Tifton, GA	Substandard housing, lack of sewer systems. Semi-rural.	4%	6.9%
Woonsocket, RI	Moderate- to middle-income, non-minority neighborhoods. Housing quality and structure vary by site, but no deteriorated conditions in evidence.	L. Bernon 3.8% Social 3.8% S. End 3.8% U. Bernon 3.8%	10.4%
Portland, OR	Severe disinvestment with 548 vacant houses, 280 vacant lots. Primarily single-family housing. Deteriorated commercial strips.	Boise 3.8% King 14% Humboldt 22% Vernon 22%	11.6%
Tuskegee, AL	N/A. Project site is a new subdivision.	14.75%	16.1%
Pittsburgh, PA	Severely deteriorated, abandoned, single-family and row housing, over 300 houses demolished in last ten years.	9.8%	7.5%
Washington, DC	Severely blighted and deteriorated residential area. Large multifamily projects	4%	9.7%
Des Moines, IA	Blighted area with vacant lots. In need of urban renewal.	9.96%	14.8%
Aguadilla, PR	Isolated area at edge of city. Limited facilities and services. Mixed housing quality.	4%	N/A
Camden, NJ	Residential area of 2,000 units, substantial vacant housing, poor conditions.	14%	18.0%
Highland Park, MI	Badly deteriorated single family rental neighborhood.	15%	36.1%

* Serious crimes reported (Uniform Crime Report, Part I offenses) divided by population of neighborhood

The information supplied in applications indicated severe deterioration and blight in the vast majority of the sites. Almost all sites reported high crime levels.[6] This is particularly true in Chicago, Portland, Tuskegee, Pittsburgh, Des Moines, Camden, and Highland Park, where crime rates were 10 percent or higher. Shelbyville, Clairton, and Woonsocket reported the lowest crime rates (under 4 percent). Similarly, eight of the 15 sites reported unemployment rates substantially higher than the national average at the time of application (about 6.75 percent). Due to changes in national and local economic conditions, however, most sponsors have seen unemployment rates rise in Nehemiah neighborhoods since the applications were filed in the summer of 1989. Woonsocket's unemployment rate, for example, more than doubled over the three-year period from 1989 to 1992.

The Nehemiah applications provide an initial picture of local conditions, indicating that the projects were proposed in very deteriorated neighborhoods where negative social and economic conditions parallel neighborhood disinvestment. In most cases, the site visits confirmed this impression. The predominant land use in these neighborhoods is residential, although the non-metropolitan sites (Tifton, Tuskegee, Shelbyville, and Aguadilla) all had substantial open space, or other nonresidential uses. Most neighborhoods contained predominantly older, pre-war housing, and site visits revealed that in a handful of sites more than half of the units appeared to be severely deteriorated, dilapidated, or abandoned. Sites with very bad housing conditions were Camden, Chicago, Gary, Baltimore, and Shelbyville. At the other extreme, projects located in neighborhoods with more modest housing deterioration included Des Moines, Clairton, Highland Park, Tuskegee, and Woonsocket.

While almost all Nehemiah neighborhoods exhibited conditions or land uses that might have a negative effect on future values, all of the neighborhoods had positive features as well. In the case of some of the most deteriorated neighborhoods (Baltimore, Chicago, Portland, Camden, Pittsburgh, and Gary), there were indications of substantial reinvestment activities, as well as high accessibility to the Central Business District.

---

6. These levels are based on the total number of serious crimes (FBI Index, Uniform Crime Report, Part I offenses) committed in a year divided by the population of the neighborhood, as reported in project applications.

Population and Housing Characteristics

The 1990 U.S. Census provides an additional source of information about the kinds of neighborhoods in which Nehemiah projects are located. Census data on population and housing characteristics were obtained for each of the tracts in which Nehemiah units are planned to be built. Exhibits 2-6 and 2-7 present selected population characteristics for Nehemiah neighborhoods and for the city (or, in the case of Tifton and Shelbyville, the county) in which they are located.

Overall, the first round Nehemiah projects are located in predominantly minority neighborhoods with high proportions of African American households.[7] The exceptions are Aguadilla (100 percent Hispanic), Tifton, Shelbyville, Clairton, and Woonsocket. In general, the Nehemiah neighborhoods have higher concentrations of minorities than the cities in which they are located.[8] Eight of 15 Nehemiah neighborhoods have higher proportions of female-headed households than the city as a whole. Finally, in most cases, Nehemiah neighborhood incomes are substantially below the median for the jurisdiction.[9] Information on selected housing characteristics (Exhibit 2-7), also drawn from the 1990 Census, tends to show the relative deterioration of the Nehemiah neighborhoods. There are generally fewer owner-occupied units in Nehemiah neighborhoods (although this is not true in Tifton, Aguadilla, Clairton, Portland, Des Moines, and Camden). Vacancies tend to be much higher in these neighborhoods, and the median values of owner-occupied units tend to be about one-third lower than the city as a whole. Differences in property values are particularly striking in Washington and Baltimore, where the median citywide values of owner-occupied homes are more than ***double*** the value of homes in the Nehemiah neighborhoods.

---

7. Minorities other than African Americans account for less than 2 percent of the neighborhood population (combined) except as follows: Gary (11% Hispanic); Chicago (14% Hispanic); Woonsocket (3% Hispanic and 4% Asian); Portland (5% Hispanic and 4% Asian), Des Moines (3% Hispanic and 5% Asian) and Camden (35% Hispanic).

8. In both Tuskegee and Shelbyville, census tract and place coincide so there is no difference between the tract/neighborhood and the "city "

9. For selection purposes, neighborhood median incomes had to be 80 percent or less of the area median income used for Section 8.

EXHIBIT 2-6

SELECTED POPULATION CHARACTERISTICS OF NEHEMIAH NEIGHBORHOODS

	1990 Population			Percent Minority		Percent Female-Headed		Median Age		Neighbor-hood Median Income as Pct of City Median
Site	Nehemiah	Total City	Pct of City	Nehemiah	City	Nehemiah	City	Nehemiah	City	
Baltimore, MD	30,528	736,014	4.1%	99.3%	61.4%	58.2%	45.9%	31.0	32.6	60.9%
Shelbyville, KY	24,824	24,824	100.0	10.7	10.7	24.3	24.3	34.9	34.9	105.8*
Clairton, PA	2,640	9,656	27.3	4.4	27.4	36.9	40.6	39.3	39.3	110.0
Gary, IN	6,331	116,646	5.4	94.7	85.9	48.5	44.3	32.6	31.2	36.5
Chicago, IL	8,282	2,783,726	0.3	97.6	62.1	47.7	40.5	27.2	31.3	61.4
Tifton, GA	14,353	34,998	41.0	33.4	30.7	32.9	30.5	31.5	30.8	77.5*
Woonsocket, RI	24,793	43,877	56.5	8.6	8.4	35.0	34.2	32.6	33.1	92.9
Portland, OR	29,811	437,319	6.8	51.7	17.1	41.0	35.1	31.2	34.5	84.3
Tuskegee,AL	12,257	12,257	100.0	97.4	97.4	52.3	52.3	24.5	24.5	NA
Pittsburgh, PA	2,653	369,879	0.7	97.9	28.4	64.8	42.7	34.9	34.6	60.2
Washington, DC	3,871	606,900	0.6	99.3	72.6	60.1	47.8	29.3	33.5	77.4
Des Moines,IA	2,369	193,187	1.2	73.8	12.2	47.2	34.2	31.7	32.3	59.2
Aguadilla, PR	2,454	18,347	13.4	NA	NA	20.9	34.0	30.6	30.6	NA
Camden, NJ	4,106	87,492	4.7	94.6	85.6	50.9	52.2	27.2	26.1	85.2
Highland Park, MI	4,455	20,121	22.1	96.5	93.7	60.6	54.6	35.6	32.0	75.3
All sites	136,646	5,495,243	2.5	64.0	46.2	45.4	40.9	31.6	32.1	

* Percent of county median.

NOTE: Program eligibility is based on percent of area median, as used in the Section 8 program.

SOURCEU.S. Department of Commerce, Bureau of the Census, 1990 Census of Population and Housing.

EXHIBIT 2-7

SELECTED HOUSING CHARACTERISTICS OF NEHEMIAH NEIGHBORHOODS

	Percent Owner Occupied Dwelling Units		Percent Units Vacant		Median Value Owned Units	
Site	**Nehemiah**	**City**	**Nehemiah**	**City**	**Nehemiah**	**City**
Baltimore, MD	28.0%	48 62%	19.1%	8.9%	$24,850	$54,700
Shelbyville,KY	NA	71.13	NA	5.9	63,620	58,600
Clairton, PA	72.3	64.36	11.5	11.7	31,400	27,600
Gary, IN	40.8	58.62	23.1	12.9	23,820	31,700
Chicago, IL	31.1	41.48	17.4	9.5	48,150	78,700
Tifton, GA	67.0	66.17	7.6	8.8	47,933	51,600
Woonsocket, RI	29.6	35.47	6.7	6.2	107,944	118,800
Portland, OR	52.9	52.98	12.2	5.6	40,940	59,200
Tuskegee, AL	NA	51.82	NA	13.2	NA	50,800
Pittsburgh, PA	30.5	52.25	8 4	9.8	25,600	41,200
Washington, DC	23.5	38.90	31.4	10.3	49,800	123,900
Des Moines, IA	63.5	62 02	8.2	5 8	31,900	49,500
Aguadilla, PR	76.9	56 82	14.6	12.4	18,600	32,300
Camden, NJ	57.0	48.39	26.4	11.6	22,300	31,300
Highland Park, MI	20.3	33 59	10.6	12.3	16,400	19,500
Average	**39.6%**	**52.2%**	**13.2%**	**9.7%**	**$36,884**	**$55,293**

SOURCE: U.S. Department of Commerce, Bureau of the Census, 1990 Census of Population and Housing.

Potential for Long-Term Neighborhood Impacts

The neighborhood improvement goals of the Nehemiah program are to some extent undercut by the smaller scale and scattered-site nature of the first-year grantees' projects. Nevertheless, most of the local sponsors anticipate positive impacts on the neighborhoods in which the projects are located. Such impacts can include positive visual improvements, the spillover effects of neighborhood reinvestment including changed attitudes toward neighborhood reinvestment, and possibly higher property values in the future. Factors that affect these anticipated effects include the scale of the project relative to the neighborhood (or community) and whether there are concurrent or coordinated improvement efforts which, when taken together with the Nehemiah project, can serve to address significant neighborhood needs. Exhibit 2-8 describes anticipated neighborhood impacts and activities for each site. The exhibit shows whether there is other neighborhood improvement activity that can reinforce the Nehemiah effort; and (2) whether, taken together, these efforts are likely to result in significant neighborhood improvement or change. The assessments are those of the study staff, based on two rounds of site visits and discussions with other local actors.

It is clear that most of the Nehemiah projects are part of a larger neighborhood development strategy. In some cases, Nehemiah is a component of specific, coordinated plan for redevelopment. Examples of sites with these plans include: Baltimore, where the city has committed itself to the substantial rehabilitation of 600-700 units in the Sandtown-Winchester area; Clairton, where the 50 Nehemiah rehabs will be complemented by the rehabilitation of 100 Section 8 rental units and 150 additional homeowner units; Washington, DC, where the project is part of the total redevelopment of a large parcel which was previously a public housing site; Portland, where the project is a component of a multidisciplinary reinvestment strategy for the northeast sector of the city; and Chicago, where the Nehemiah project is part of a larger 250-unit effort and an element in a "mosaic of neighborhood improvement" orchestrated by Bethel New Life. In many of the other sites, Nehemiah is part of a diverse set of public and private improvement activities which together should lead to overall improvement in the neighborhoods.

In sites where potential impact was judged to be relatively low, the problem was typically that the project was too small and/or too scattered to have much effect, plus there was insufficient related activity to support it. ***In no case was the Nehemiah activity alone considered sufficient to turn a neighborhood around.*** It should also be noted that three of the

EXHIBIT 2-8

ANTICIPATED NEIGHBORHOOD IMPACTS

Site	Other Neighborhood Improvement Activities	Anticipated Impact
Baltimore, MD	Little city investment prior to Nehemiah. The project is now seen as the cornerstone of a city demonstration to transform all aspects of neighborhood life. Near term commitment is to rehab 670 vacant, abandoned units; ultimately 2,500 units to be treated.	High. Very visible project. Large number of units, although small relative to neighborhood need. Influx of new owners is already having impact on community attitudes. Larger "transformation" effort should have major impact.
Shelbyville, KY	Part of three-phase CDBG revitalization plan.	High. Although small, the project will have strong visual impact in a concentrated area.
Clairton, PA	Part of overall plan for this townhouse development. Total project will produce 200 rehabbed homeownership units and 100 rehabbed rentals.	High. Two-thirds of all units will be rehabilitated, plus new infrastructure.
Gary, IN	Some nearby upgrading. Future HOPE or HOME activity expected.	Moderate to low. Larger effort is needed.
Chicago, IL	1,350 new and rehabbed units developed by Bethel during last ten years	High. Strategic site selection will maximize impact Improving residential and commercial market.
Tifton, GA	Project is a new subdivision in a peanut field. General area has received CDBG rehab and street improvements.	High. Will produce large number of new homes for a small community. Project has already led to some spillover.
Woonsocket, RI	None	Low. Units are being located in moderate income areas (resulting in some resistance). Homes are comparable in value to those surrounding. Sites are not concentrated.
Portland, OR	Other for-profit/nonprofit development. New police station. Transportation improvements.	High. Project should have major impact in conjunction with other rehab and infrastructure improvements.
Tuskegee, AL	None. Project is a new subdivision.	High to moderate. This is a large amount of new housing for a small town.
Pittsburgh, PA	Many commercial/retail rehabs completed by sponsor. Various rehab and new construction ownership projects underway.	High. HBRDC commercial and ownership projects are standouts in this distressed urban neighborhood.
Washington, DC	100 additional HDG units to be built. Extensive multi-family rehab in area. Complete redevelopment plan for site.	High. Entire neighborhood will be treated.
Des Moines, IA	Previous infrastructure improvements and infill housing.	High Nehemiah will address 50 of 70 vacant lots.
Aguadilla, PR	None Project is a rural subdivision.	Low, due to low density and remote location of area.
Camden, NJ	Various housing projects planned Street improvements in progress.	Low. Program was too small and units are scattered.
Highland Park, MI	Elderly and multi-family development.	Moderate. Would help stabilize other development.

projects were to be located in rural areas on large vacant tracts. Here, the goal of neighborhood improvement in the conventional sense does not apply; however, in the cases of Tifton and Tuskegee, the impact on the overall community was expected to be high due to the introduction of a large number new units into very small communities. In Aguadilla, however, even if the project had gone forward, the low density of the area and remote location from the municipal center reduced the potential for impact on an existing community. Finally, in one site (Woonsocket), the units are being built in middle-income areas which are not deteriorated. Thus, the project does not serve conventional neighborhood improvement goals; in fact, one of the issues for this site is neighborhood resistance to the introduction of "subsidized" housing.

2.4 Target Purchasers

A final element of the Nehemiah program design is the type of buyer targeted by the program. The Nehemiah program is aimed at first-time buyers with incomes that do not exceed the area median (as calculated by HUD for the Section 8 program) or the national median (whichever is higher). Sites could also request a waiver in order to allow a maximum of 15 percent of the purchasers to have incomes up to 115 percent of median. While maximum income is determined by the Nehemiah legislation, the minimum income that can be served may vary substantially by site, based on the costs of developing the units, and on the types financing and subsidies that the local sponsors are able to arrange.

Exhibit 2-9 shows the maximum income limit for each site, as well as the range of incomes targeted by the sponsors. As shown, in most sites the high end of the range is well below the program maximum, although two sites (Pittsburgh and Woonsocket) have exceeded this amount by using the 115 percent waiver. The lower ends of the ranges are quite low in many sites—with ten of the 12 active sites expecting to serve buyers with incomes under 50 percent of median, and ***three of these anticipating buyers at less than 25 percent of median.*** As will be discussed in more detail in Chapter 4, most of the sites appear to be meeting their income targets by using very deep subsidies to make the units affordable to very-low income buyers.

At this stage in the program, the continued success of most of the projects will hinge on actively marketing the Nehemiah units. Despite the subsidies involved, few sponsors have generated large numbers of people waiting for the chance to buy a Nehemiah unit at a low price.

EXHIBIT 2-9

TARGET NEHEMIAH BUYERS

Site	Target Income		Site Maximum
	Low	High	
Baltimore, MD	$10,000	$33,000	$44,100
Shelbyville, KY	2,300	20,000	38,600
Clairton, PA	7,000	30,000	38,600
Gary, IN	15,000	31,000	39,000
Chicago, IL	19,000	38,000	48,400
Tifton, GA	20,000	33,000	38,600
Woonsocket, RI	30,000	45,000	40,300
Portland, OR	15,000	35,000	39,400
Tuskegee, AL	12,000	25,000	38,600
Pittsburgh, PA	18,000	41,000	38,600
Washington, DC	25,000	55,000	59,200
Des Moines, IA	18,000	40,000	41,800
Aguadilla, PR	NA	NA	38,600
Camden, NJ	NA	NA	41,100
Highland Park, MI	NA	NA	45,100

Sponsors have tended to rely on traditional methods of outreach—e.g., word-of-mouth, community news flyers, spot radio announcements, church pulpits, local newspapers—to generate buyers; in addition, a number of sites have used (or plan to use) real estate agents to market the units.[10] However, the economic circumstances of most eligible families preclude their even thinking about buying and owning a home. There is also substantial risk for

10. Sites have varied in the intensity of their marketing efforts as well as the methods used. For example, a number of sites have used or plan to use real estate agents to market the units. Baltimore is one such site. In this site, announcements in BUILD-affiliated churches, as well as considerable free publicity from visiting government officials and political candidates, also resulted in a very broad outreach effort. Other sites have used regular ads and announcements, but do not appear to have generated the widespread interest seen in Baltimore. It may be noted that in Baltimore, roughly two-thirds of the purchasers came from other areas of the city; by contrast, the buyers in other sites were much more likely to be residents of the immediate project neighborhood.

homebuyers where, due to the condition of the neighborhood, there may be a very limited market for re-selling the units to an unsubsidized buyer later on. Finally, even though deep subsidies may make the units very affordable, poor credit histories and other underwriting problems have severely limited the pool of potential buyers who can qualify for Nehemiah homes. Many sites have reported that very few of the households expressing interest in the units are able to qualify. Even in the most successful site (Baltimore), only about one in ten initial applications resulted in a loan.

In recognition of these problems, seven sites have incorporated some form of homeownership counseling into their sales programs. Staff at the Baltimore, Chicago, Portland, and Tuskegee sites say that pre-purchase counseling has enabled prospective purchasers to improve their credit records and to plan for homeownership expenses before the loan application goes to the city agency or bank for underwriting approval.[11] Note, however, that counseling has typically been provided through referrals to other organizations, and, for the most part, has been closely linked to the screening and qualification process. Baltimore is the only site to provide a formal, required course for homebuyers covering a broader set of topics including general money management, home maintenance and repair, and community empowerment.[12] According to a representative of BUILD (one of the Baltimore sponsors), the counseling program in that site is considered to have been extremely successful and an important component of the overall investment in the Nehemiah housing.

In general, marketing appears to be a weak link at many of the Nehemiah sites. A number of sponsors have said that the slowdown in the economy or a "bad real estate market" was the reason that they had not aggressively marketed the units in 1993, and a number have simply geared their production to the low expected flow of buyers. In order to achieve the required number of sales, however, most sponsors will need to generate substantial new interest in the units via announcements, brochures, waiting lists, or whatever methods appear to be best suited to the individual sites.

---

11. Although the Portland project refers purchasers to counseling services, several homebuyers in focus groups indicated that they were not aware of the availability of this service

12. The Baltimore program involved three evening sessions of three hours each.

2.5 Implications

The Nehemiah sponsors are a diverse group in terms of organizational experience and mission. Overall, the larger and most experienced organizations have shown more success in getting their projects under way and in handling problems that arise. Conversely, the three organizations that dropped out of the program had no previous development experience, and two had only been incorporated one year prior to submitting the Nehemiah application. The three dropout sites also demonstrate the importance of factors such as strong political support (and financial backing) from local government, organizational stability, and firm understanding of program requirements—all three of which were lacking in the cancelled projects.

The projects proposed by the 1989 grantees rarely attempted to replicate the model provided by the New York Nehemiah project, which served as impetus for the Nehemiah legislation. Only a few sites proposed large-scale, concentrated urban projects, although smaller-scale efforts in the four rural sites were still large relative to the surrounding community. The majority of the sites proposed the minimum program size of 50 units or sought waivers to produce even fewer units. Economies of scale (a major feature of the New York project) were further reduced by the phased development plans adopted by the sponsors. Despite these factors, the 12 continuing projects (along with related improvement efforts) are in most cases expected to have a high level of impact on the neighborhoods or areas where they are being developed. Potential neighborhood benefits include visual impact, spillover of improvements, and more positive neighborhood attitudes, as well as the creation of new housing opportunities for very low-income households.

Now that most of the Nehemiah sponsors have produced at least some units, the critical question for the future will be whether they can sustain the projects to completion. This will depend on their management ability, their ability to hold down costs increases, and—probably most important at this stage—their ability to market the units and line up a sufficient number of buyers to keep production moving. Strong management and excellent marketing appear to have played important roles in the success of the Baltimore project. The Baltimore sponsor also appeared strongly motivated to produce the units within budget and to complete the work as quickly as possible. Now that most of the projects are underway, and the housing market appears to be improving, these factors will affect whether the other sites are able to complete their projects as planned.

CHAPTER THREE

PROJECT IMPLEMENTATION

This chapter describes the implementation of Nehemiah projects and considers the principal factors that influenced the development process and the outcomes observed. We focus the discussion on the 12 first-round projects that reached the implementation stage. The first section presents a summary of how sponsors financed their projects during the construction phase before units were sold. It considers the relative importance of the cash and noncash resources applied to the projects, as well as the involvement of financial institutions in project implementation. Section 3.2 focuses on the costs of developing the Nehemiah units. The section provides estimates of total costs, including both out-of-pocket expenditures and the value of contributed items such as donated land, waived fees, or forgiven taxes. This is followed in Section 3.3 by a discussion of the relationship between development costs, sales prices, and the current market values of the units.

Section 3.4 focuses on implementation issues and assesses the primary causes for the delays that have been observed among the first round grantees. The section also comments on how sponsors' original plans have changed in response to both internal and external circumstances, and how both the organization and design of the projects were adapted to meet new requirements. Finally, based on the implementation experience of the first round sites, the chapter concludes with a discussion of lessons that might be helpful to prospective sponsors of similar projects.

3.1 Project Financing

In applying for the Nehemiah grant, project sponsors had to indicate how they expected to finance the project during construction, and what source would be used for long-term mortgages for the low-income homebuyers. In most cases, mortgage financing posed no great difficulty for sponsors, because state or local housing finance agencies had funds available from mortgage revenue bonds to buy out the loan originators who would underwrite the mortgages. Project financing for pre-development work and construction, on the other hand, turned out for many sponsors to be more difficult than was at first imagined. Reasons for this difficulty included the number and diversity of sources that had to be accessed, higher front-end costs and longer development periods than anticipated, and slower-than-expected rates of initial sales (the proceeds from which were used to retire revolving loan debt.)

Sources of Construction Financing

In most sites a single, low-cost source of construction financing was generally not available for all units at one time; most sources provided either a revolving loan fund that had to be paid back from prior sales before new loans could be issued, or provided limited financing that covered only part of total project costs. Exhibit 3-1 details the sources and amounts of construction financing for each of the first-round Nehemiah sites. These figures reflect both ***cash*** resources used to cover out-of-pocket expenses and other, ***non-cash*** resources. The latter include (1) the value of in-kind contributions (e.g., donations of land, services, or improvements), which serve to reduce the amount of cash that needs to be raised, and (2) expected downpayments and sales proceeds used to replenish interim financing for the construction of future phases. It should be noted that not all of the financing sources listed in Exhibit 3-1 are fully committed; some sponsors are still in the process of revising their development programs and have only tentative agreements with funding sources. In addition, one site (Washington, DC) has not updated its pro forma at all, leaving a large portion of the financing undetermined.

As shown in Exhibit 3-1, construction financing sources fall into the following six categories:

> ***Private Grants:*** Five of the 12 current sponsors received grant funds from private sources such as foundations, sponsor contributions, and churches or charitable organizations. One site, Pittsburgh, will receive grant funds from a local bank.
>
> ***Private BMIR[1] Loans:*** Private, low-interest loans for construction were available in six of the 12 active sites. Three sponsors (Shelbyville, Baltimore, and Chicago) were able to draw on their own development loan funds, raised primarily from churches and member organizations. Two sites (Portland and Woonsocket) received BMIR loans from banks or bank consortiums. One site (Gary) received low-interest start-up loans from Local Initiatives Support Corporation (LISC) and a private foundation.
>
> ***Private Market-Rate Financing:*** Altogether, four sponsors have received (or expect to receive) market-rate construction loans. These are Gary, Pittsburgh, Chicago, and

1. Below-market interest rate.

Exhibit 3-1

SOURCES OF CONSTRUCTION FINANCING AND IN-KIND CONTRIBUTIONS

	Private Sources			Local Government Sources				
	Grants	BMIR loans	Market Loans	Grants	BMIR Loans	Mkt Loans	Other	In-kind Contributions
1 Baltimore, MD		BUILD ($2,180,000)		CDBG ($5,706,300) CDBG ($1,859,300)	CDBG ($1,890,000)	CDFC ($13,289,405)		City land ($966,000) BG&E ($252,063) City in-kind ($411,520)
2. Shelbyville, KY		Sponsor loan fund ($4,756)		CDBG ($386,450) HOME ($16,100)	HFA ($263,000)		Unit sales ($262,915)	City land ($21,000), fees waived ($2,535)
3 Clairton, PA					County rehabilitation loans ($1,014,852)		State downpayment assistance ($155,400), Nehemiah ($625,000)	Sponsor land ($200,000), county infrastructure ($101,389)
4 Gary, IN*	LISC ($102,500)	LISC ($512,500) Amoco ($307,500)	Bank One ($1,071,260)	CDBG ($512,500)			HUMANIO ($256,250)	City land ($11,644), other contributions ($170,150)
5 Chicago, IL		Churches ($195,000) and Bethel ($20,000)	First Bank of Oak Park ($200,000)				Unit sales ($12,113,896)	City land ($1,252,500), legal ($450,000); interest/tax forgiveness ($144,500), builder TA ($200,000)
6 Tifton, GA							Unit sales ($2,750,000)	County land write-down ($39,600), infra-structure ($171,100); staff time (85,000)
7 Woonsocket, RI	LISC ($60,000), bank write-off ($36,000)	Banks ($323,339)	RI Hospital Trust ($3,995,200)	City ($60,000)	CDBG ($84,750), State ($25,250), RIF ($15,000)		Sales proceeds ($783,885)	City land ($15,000), foregone fees ($50,000)
8 Portland, OR	Foundations, charitable orgs ($911,472)	Bank consortium ($2,135,000)		City ($1,160,000)			Unit sales ($15,751,280)	County land ($1,375,000); foregone fees ($500,000)
9 Tuskegee, AL	Foundation ($750)			CDBG ($330,000) for site work			Unit sales ($2,392,000)	Sponsor land ($30,200), site development ($30,000), staff ($45,000)
10 Pittsburgh, PA*	Pitts Partnership ($180,000), bank ($48,960)		Pittsburgh National Bank ($844,800)	City site work grant ($900,000)	City zero-interest loan fund ($888,000)		Deferred cost ($112,728)	City land (52,800), remediation ($458,000)
11 Washington, DC				City infrastructure grant ($3,000,000)	HFA ($6,000,000)		Undetermined ($8,861,967)	Not known
12 Des Moines, IA				CDBG ($194,877)			Developer financing ($3,438,377)	None

* Extrapolated from proformas for first phase.

Woonsocket.[2] In Pittsburgh the private loan will be matched with a zero interest public loan to provide a low overall interest rate. The construction lender is very supportive of the project, having played a similar role in a previous project developed by HBRDC. In Portland, six banks are working as a consortium, thus spreading the financing risk among them. In both Portland and Gary, the construction lenders have been very active in the projects, in part as a means of meeting Community Reinvestment Act (CRA) requirements. (In Gary, CRA concerns have also led to a competition between the construction lender and another local bank to make the permanent mortgages on the units.)

Local Government Grants: The use of public grant funds is very common in Nehemiah projects. Altogether, nine of the 12 active sponsors received grants from public sources, principally local CDBG agencies. Grant funds were usually provided to support a specific activity (e.g., infrastructure and site work in Washington, Woonsocket, and Pittsburgh, or project planning and administration in Des Moines and Portland). In two additional sites, localities provided infrastructure improvements directly to the project. This had the same effect as a grant, although the funds were accounted for outside the Nehemiah budget.

Local Government BMIR Loans: State and local BMIR loans were a source of construction financing in six of the 12 active projects. In two of the sites, low-interest construction loans were provided by the state housing finance agency. In the other four, BMIR financing was received from a city or county government. BMIR construction loans ranged from 0 to 3 percent. One of the sites (Clairton) is something of a special case, in that county rehabilitation loans (provided to the homebuyer) are being used to finance construction costs after unit closings.

Local Government Market Rate Loans: One site (Baltimore) received a major construction loan (at 10 percent interest) from a quasi-public development financing agency set up by the city. Given the magnitude of the financing needs in Baltimore, CDBG loans could only cover a portion of the needed funds; thus, financing through the Community Development Financing Corporation was arranged. No other site had access to similar development financing that covered 50 percent of total development costs.

Other Internal Sources: A number of other internal sources were cited by sponsors, including the use of sales proceeds from the first units sold to cover the costs of later phases of construction. Many of the sites have obtained construction funding sufficient to produce an initial phase of units, after which the funds were repaid (revolved) or new loans were taken out as the units were sold. Sites where a large portion of funding was deferred in this way include Chicago, Tifton, Portland and Tuskegee. The Tuskegee approach is unique in that the sponsor purchases the units from a "turnkey" builder and resells them immediately to the new owners. Sales proceeds are identified as the source of financing, with the organization's cash used to cover any interim costs. In Clairton,

2. Woonsocket's loan funds have not yet been fully committed for the second phase of the project.

downpayments and the Nehemiah loans are counted as a construction source, since the units are being rehabilitated ***after*** transfer to the new owner.

Also included in the internal sources category "deferred" costs in Pittsburgh (i.e., items for which the payment is not received until closing, which can therefore be covered from proceeds at the time of sales); and the ***total*** anticipated cost of the project in Des Moines, where a developer will be responsible for obtaining all project financing and producing units on a fixed-price basis. Finally, in Washington, DC we have included a minimum of $8 million in anticipated development costs for which no source has as yet been identified.

Altogether, private sources of project financing accounted for 12 percent of the total, public sources account for 36 percent, and other internal sources account for 52 percent. Focusing on ***initial cash raised from external sources*** (that is, excluding sales proceeds, miscellaneous and/or unidentified sources, and in-kind contributions), 26 percent came from private sources and 74 percent from public sources. Grants account for 30 percent of initial resources raised, while debt accounts for the other 70 percent.

In general, Nehemiah sponsors did not rely heavily on conventional construction financing from private banks. Only four of the 12 active sites planned from the start to obtain private market-rate loans for construction. One additional site (Des Moines) has turned over its project to a private developer who is providing the conventional financing. Overall, however, only about 7 percent of total resources (or 14 percent of cash resources) came from conventional construction financing.

Low reliance on conventional construction financing may reflect the time period in which the units have been developed (a recessionary period with reduced real estate lending); the relatively high risk perceived by financial institutions for these kinds of loans (thereby reducing the available capital and increasing the interest rates); and the sponsors' needs to minimize interest costs in order to enhance affordability for lower-income buyers.

As a result of the number of sources needed and limitations on funding, many sponsors experienced difficulty lining up sufficient resources to cover all aspects of development at one time. In Des Moines, for example, difficulty in obtaining construction financing was largely responsible for the decision to use a private developer who could sign for the construction loan. In fact, the high degree of phasing observed in the program reflects a conscious strategy used by many sponsors to minimize construction financing needs. In Chicago, Bethel New Life intends to proceed with the next units only after closing the sales on currently unoccupied units and obtaining pre-sale commitments with pre-approved mortgage loans on the next ones to be built. With a slow rate of sales, the result has been that the development process has been extended considerably, thereby increasing overall costs.

Role of Financial Institutions in Project Implementation

In many Nehemiah sites, financial institutions (or their public sector counterparts) have played an important role in the design and implementation of the projects.[3] In the private sector, the clear motivation has been to support local affordable housing efforts as a part of meeting Community Reinvestment Act requirements for funding local projects. In Portland, a consortium of six banks made $2 million of construction funding available to the sponsor, NECDC, on a revolving basis. The banks worked closely with NECDC to overcome problems with the local FHA office on property appraisals, and to solve other development problems. One side effect of this partnership, however, has been to hold the sponsor's feet to the fire in pre-selling all units ***before*** the release of any funds for construction. NECDC must have 14 units pre-sold to approved homebuyers for every ten units under construction. The capacity of the builders to produce the units is much greater than the capacity of the Portland sponsor to pre-sell the units, so the development process has slowed down. Also, according to the sponsor, the lead bank for construction lending is the one least familiar with these types of loans, making the process slower than necessary. NECDC is now trying to raise additional construction financing from a CDBG float loan, in order to be able to undertake construction of more units at a time, thereby reducing costs. Also, the Portland project is using the Federal Home Loan Bank community lending program to provide downpayment assistance for households with incomes below $28,000.

In other cases, notably Baltimore, local government is a primary lender. Here, the city has not only provided $9.5 million in grants and loans for infrastructure, but has also made over $13 million of development financing available to Enterprise at a low cost through its quasi-public finance agency. The city has participated very closely in all aspects of the project; now, with the funds returned, it is looking forward to undertaking a similar project in the same

3. The role of state agencies providing permanent mortgage financing is discussed in chapter 4.

neighborhoods. In Gary, the sponsor has been able to secure funds from LISC, Amoco, and Bank One to fund initial construction. The strong support shown by the private sector was one reason this project was selected for the first round of the Nehemiah program. Another site where private lending plays an important role is Pittsburgh. Here, a local bank will provide a sizable construction loan (to be matched with zero interest city funds) and is also providing the sponsor with a development grant.

Not all front-end financing for construction has worked out well. Severe delays in the sale of the first six Nehemiah units in Woonsocket, and much higher-than-expected costs for those units, caused one of the banks to agree to write off part of its outstanding loan when the sponsor could not repay the funds. In Chicago, Bethel New Life has paid off one of its sources of financing (World Vision Inc.) from the initial sales because of the high interest rate being charged (10 percent); the sponsor plans to use internally available funds as much as possible to complete additional units.

3.2 Development Costs

Exhibit 3-2 presents the actual or estimated total development costs for each of the 12 continuing first-round Nehemiah projects. Data for each site except Baltimore (completed) and Washington and Pittsburgh (not yet begun) are based on work in progress; as a result, totals are likely to change between now and the completion of the projects. Total costs have been broken down into two categories, reflecting out-of-pocket costs and the non-cash contributions and donations the projects have received. At this stage of development, the average per-unit development cost across the 12 projects is $88,755, comprised of $70,257 in out-of-pocket costs plus $18,498 in contributions. The highest per-unit costs are found in Pittsburgh. This is largely due to the expense of removing hazardous waste from the site, and to the higher-than-planned costs for other site improvements. Without these changes, Pittsburgh's estimated per-unit costs would be $94,427. Washington's per unit costs are also high, due primarily to the costs of land acquisition, contribution of the developer's fee to the project to retire the loan used to buy the land, a high builder's fee, and relatively high per-square-foot construction costs. The third most expensive site is Woonsocket ($108,969 per unit), where costs also reflect the high land acquisition and site preparation costs for the nine-unit subdivision comprising the next phase of development.

EXHIBIT 3-2

TOTAL DEVELOPMENT COSTS PER UNIT

Site	Units	Percent Complete	Total Out-of-Pocket	Total Contributions	Total
Baltimore	300	100%	$57,866	$30,649	$88,515
Shelbyville	18	72%	49,062	4,091	$53,153
Clairton	50	48%	35,905	6,028	$41,933
Gary	41	29%	67,378	4,434	$71,812
Chicago	169	25%	74,417	11,831	$86,248
Tifton	50	14%	55,000	5,914	$60,914
Woonsocket	50	12%	102,277	6,691	$108,968
Portland	250	10%	70,765	16,566	$87,331
Tuskegee	52	8%	46,591	7,792	$54,384
Pittsburgh	24	0%	86,437	58,783	$145,220
Washington	132	0%	108,045	27,273	$135,318
Des Moines	50	0%	72,664	0	$72,664
Aguadilla	Canceled				
Camden	Canceled				
Highland Park	Canceled				
Total per unit	**1186**	**36%**	**$70,257**	**$18,498**	**$88,755**
Percent of Total			**79.2%**	**20.8%**	**100.0%**

Sites in the mid-range of total estimated development costs are Baltimore, Portland, Chicago, Des Moines, and Gary; per-unit figures range from \$88,515 (Baltimore) down to \$71,812 (Gary). Baltimore's figures, based on actual completed costs for 300 units, reflect a relatively high proportion of in-kind contributions for land and infrastructure, amounting to nearly 35 percent of total development costs (\$30,649 per unit). This is nearly two-thirds more than the average for all projects (\$18,498), though only half as much as Pittsburgh, where the city is paying to remove hazardous waste and provide infrastructure for the site. Baltimore's total development cost per unit is almost exactly the average for all sites.

The least expensive per-unit costs are found in Clairton, Shelbyville, Tuskegee, and Tifton, in that order. All of the units in Clairton, and all but three of the units in Shelbyville, involve substantial rehabilitation. As expected, their costs are lower than most new construction. The other relatively low cost sites (Tuskegee and Tifton) reflect the much lower costs of construction costs in rural Alabama and Georgia.

Comparison with Application Budgets

How do current development costs compare with the original budgets prepared as part of the grant application? In applying for Nehemiah funding, each prospective sponsor provided a budget for the major cost components of its project on HUD Form 911. Those estimates are summarized in Exhibit 3-3 and compared with current development cost figures provided by each sponsor.[4] Only one site, Des Moines, has been able to lower its per-unit costs, as the result of major design changes required to achieve affordability targets. Baltimore, over its four-and-one-half year development period, was able to contain cost increases to a mere one percent, despite inflation in material and labor prices during the period. This major achievement is attributed to tightly written and closely managed subcontracts with the major suppliers for the 300 manufactured units, as well as an aggressive marketing program that helped to keep the project on schedule (avoiding costly delays).

In contrast, all other sites are now projecting total development cost increases ranging from 15.2 percent in Clairton to 77.3 percent in Pittsburgh. In many sites, the projects being

4. In three sites, Baltimore, Shelbyville, and Clairton, the original development budgets have been adjusted to take into account city contributions for demolition (Baltimore) and utility infrastructure (Shelbyville and Clairton) that were not in the original grant applications.

EXHIBIT 3-3

COST PER UNIT COMPARISONS WITH ORIGINAL APPLICATION BUDGETS

Site	Units	Total Budget Estimate at Application	Current Total Development Costs	Percent Difference
Baltimore*	300	$87,765	$88,515	0.9%
Shelbyville*	18	43,298	53,153	22.8
Clairton*	50	36,409	41,933	15.2
Gary	41	44,669	71,812	60.8
Chicago	169	64,182	86,248	34.4
Tifton	50	48,361	60,914	26.0
Woonsocket	50	82,022	108,968	32 9
Portland	250	62,555	87,331	39.6
Tuskegee	52	37,650	54,384	44.5
Pittsburgh	24	81,903	145,220	77 3
Washington	132	112,765	135,318	20.0
Des Moines	50	76,633	72,664	-5.2
Aguadilla	Canceled			
Camden	Canceled			
Highland Park	Canceled			
Total per unit	**1186**	**$72,457**	**$88,755**	**22.5%**

* Figures have been adjusted to include costs for development components not included in original application (e g , donated land and infrastructure)

built are different, either in design or in scope, from the projects originally envisioned. These changes have been brought about as the result of adaptations to higher-than-expected construction costs, a slower pace of sales, and/or organizational changes. Many sponsors also encountered a substantial number of costs that were never anticipated—for example, site remediation in Pittsburgh, title clearance in Portland, site acquisition in Woonsocket, and infrastructure in Tifton.

Components of Total Development Cost

In order to provide a clearer picture of the components of total development costs in each site, Exhibit 3-4 breaks down development costs into four categories:

- property acquisition and site preparation costs;
- direct construction costs;
- indirect construction costs; and
- legal, organizational, and marketing expenses.

First, project sponsors had to ***gain control of the property and prepare the site*** for development. This phase of development covers a broad range of activities, including purchasing or acquiring/clearing title to the site; conducting site investigations (legal, environmental, surveying, engineering, regulatory); securing permits from appropriate public agencies; completing site clearance and/or demolition work; and carrying out infrastructure work (e.g., adding water and sewer hook-ups). Traditionally, this is a high-risk phase, because the costs are easy to underestimate and one negative result can overturn or delay the project substantially. Pittsburgh and Woonsocket provide examples of these kinds of difficulties—problems in site acquisition and preparation have delayed their projects significantly. This is also true for many of the other Nehemiah projects, even though ten of the 12 active sites report negligible out-of-pocket costs for land acquisition per se.[5] On average, sponsors are spending \$15,555 per unit for property acquisition and site preparation; this amounts to 17.5 percent of total per-unit development costs. (Costs in this category range from a low of \$284 per unit in Gary to a high

5. See Abt Associates Inc., *Baseline Report on Grantee Characteristics,* Exhibit 8.

EXHIBIT 3-4

COMPONENTS OF TOTAL DEVELOPMENT COSTS PER-UNIT*

Site	Units	Site Acquisition/ Preparation	% of Total	Direct Construction	% of Total	Indirect Construction	% of Total	Legal, Organizational & Marketing	% of Total	Total Development Cost	% of Total
Baltimore	300	$23,081	26 1	$55,391	62.6	$2,748	3 1	$7,295	8 2	$88,515	100%
Shelbyville	18	$22,581	42 5	$27,789	52 3	$930	1 8	$1,853	3 5	$53,153	100 0
Clairton	50	$7,228	17 2	$25,832	61 6	$6,073	14 5	$2,800	6 7	$41,933	100 0
Gary	41	$284	0 4	$56,639	78 9	$8,680	12 1	$6,209	8 7	$71,812	100 0
Chicago	169	$8,595	10 0	$64,914	75 3	$8,012	9 3	$4,727	5 5	$86,248	100 0
Tifton	50	$6,762	11 1	$45,976	75 5	$6,284	10 3	$1,892	3 1	$60,914	100 0
Woonsocket	50	$9,811	9 0	$73,554	67 5	$7,888	7 2	$17,715	16 3	$108,968	100 0
Portland	250	$7,725	8 9	$62,599	71.7	$6,541	7 5	$10,466	12 0	$87,331	100 0
Tuskegee	52	$7,504	13 8	$37,309	68 6	$7,230	13 3	$2,341	4 3	$54,384	100 0
Pittsburgh	24	$59,783	41 2	$74,703	51 4	$4,492	3 1	$6,242	4 3	$145,220	100 0
Washington**	132	33,638	24.9	$72,504	53 6	$21,624	16 0	$7,552	5 6	$135,318	100 0
Des Moines	50	$2,334	3 2	$60,597	83 4	$2,833	3 9	$6,900	9 5	$72,664	100 0
Aguadilla	Canceled										
Camden	Canceled										
Highland Park	Canceled										
1993 Current Total	1186	$15,555	17.5%	$58,610	66.0%	$7,317	8 2	$7,273	8.2	$88,755	100%
Application Total	1202	$13,123	18.1%	$49,221	67.9%	$5,282	7.3	$4,831	6.7	$72,457	100%

* Unless otherwise stated, all averages are weighted by the number of units in each site

** Figure includes developer's fee of $1.8 million (to pay TPL's land acquisition costs) and $1.4 million for "overhead/profit and builder's general requirements " of $59,783 in Pittsburgh).[6] Baltimore and Shelbyville are the third and fourth most expensive programs with respect to per-unit site development costs, because both programs reflect major infrastructure investments by their respective cities as part of the project. All other active projects have site development costs generally under $10,000 per unit (less than 20 percent of total development cost).

The second major cost category covers actual construction. ***Direct construction costs***, or "hard costs," include all of the major categories of construction, whether specified by system (e.g., foundations, roofs, windows) or by construction materials and providers (e.g., concrete, metals, electrical, plumbing).[7] As an industry rule-of-thumb for residential homebuilding, hard construction costs usually account for between two-thirds and three-quarters of total project costs for residential construction. The average Nehemiah site is currently spending $58,610 per unit for direct construction costs, or 66 percent of its total development budget. The range is broad, however, from a low of $22,832 per unit in Clairton (substantial rehabilitation) to a high of $74,703 per unit in Washington, D.C. The largest program, Baltimore, spent proportionately less of its total budget on construction per se (62 percent), and its per-unit direct construction costs were lower than seven other sites (Gary, Chicago, Woonsocket, Portland, Pittsburgh, Washington, and Des Moines).

The third major type of cost is ***indirect construction cost.*** These "soft costs" include items traditionally known as "general conditions" (e.g., project management, trailer rentals, security, taxes and utilities during construction), as well as financing fees, interest during construction, and other builders' overhead items attributed to the project. The average for all sites is $7,317 per unit, ranging from a low of $930 per unit in Shelbyville to a high of $21,624 in Washington.

The final category of project costs are those involving ***legal, organizational, relocation, and marketing expenses*** related to selling the units. Depending on the form and depth of

---

6. Pittsburgh had initially estimated site costs at $250,000 total. That figure is now $1,358,000, of which $458,000 is for site remediation Without the hazardous waste problem, Pittsburgh's site development costs would still exceed $44,000, more than 33 percent higher than the second most expensive site, Washington, at $33,638.

7 To make these figures comparable with those in the Nehemiah applications (HUD Form 911), construction costs also include architectural fees and the value of contributed materials and services.

services provided, and the nature of the providers, these costs can easily exceed 10 percent of total project costs. In the case of the 12 Nehemiah projects, however, only Woonsocket and Portland exceed this figure (spending $17,715 and $10,466 per unit, respectively, on legal, organizational and marketing costs). Baltimore was able to complete its 300 units while spending just about the average cost per unit on this category ($7,295).

Cost Increases

Except for the completed Baltimore project, total development costs continue to increase; plans and cost estimates, and therefore budgets, are not stable. Less experienced sponsors are encountering unanticipated expenses (both source and amount) that were not included in the original project budget; thus, cost estimates for the last units may differ widely from the first units, and may reflect some guesswork on the part of sponsors. Despite this, ***the proportion of total development costs*** accounted for by the four different cost categories has stayed relatively stable—17 percent for site acquisition and preparation, 66 percent for direct construction costs, 8 percent for indirect construction costs, and 8 percent for legal, organizational, and marketing costs. In reviewing Exhibit 3-4, the three factors that seem to contribute most to variations in projected per unit costs are the cost of land (including land acquisition and preparation activities); the substantial regional variations in direct construction costs; and the style, type of construction (particularly, rehabilitation versus new construction), and level of amenities offered in different sites.

Perhaps the most striking fact about the figures shown in Exhibits 3-2 through 3-4 is the amount by which project costs have escalated. With the exception of Baltimore (where costs were relatively steady because of negotiated fixed-price contracts with major subcontractors and only moderate schedule delays), and Des Moines (where expected development costs have decreased due to clarification of sites and revisions in construction plans), all other active sites show substantial cost increases, averaging $16,298 per unit, or 22 percent above the original budget. The Means cost indices for the years and sites in question indicate an overall residential cost increase of between 10 and 13 percent throughout the United States.[8] Thus, rising local

8. R.S. Means Company, *Means Square Foot Costs 1993,* 14th annual edition (Kingston, MA; 1993)

construction costs contribute to, but do not explain, the observed total increases between the original budget and current projections.

There seem to be four primary reasons for the major differences in costs:

- The project sponsors did not provide a complete specification of the value of ***contributions*** supporting their projects (e.g., Portland, Washington, Gary) in the original budgets, thus understating the true costs of the project in their applications.

- Project sponsors have encountered major ***unforeseen pre-development costs*** such as site clean up, surveying, legal work and site preparation (Woonsocket, Portland, Pittsburgh, Chicago, Washington);

- Project sponsors had very ***little idea what the project was going to cost*** when the grant application was filed, because specific development plans had not been completed (Shelbyville, Gary, Pittsburgh, Des Moines); and

- Development ***plans have evolved in response to changing local conditions and are still not firm***; therefore projected final development costs are not yet under control (Woonsocket, Pittsburgh, Tuskegee, Portland, and Washington).

The last two factors are of particular importance for assessing sponsors' performance against their applications. Inexperienced project sponsors may have had little basis for projecting costs, and many development plans have only lately become firm. The Woonsocket Housing Development Corporation, for example, recently redesigned its entire project (including site selection) due to the difficulties experienced with the first six units. Similarly, the Pittsburgh and Des Moines projects have undergone major design and cost revisions. Most other sites are still not able to say with much accuracy what their final costs will be. Securing comparable development costs is made more difficult because sponsors have not been required to maintain detailed cost records according to a pre-determined format which would facilitate such comparisons. Even more experienced developers such as Telesis have not updated their pro forma cash flow estimates, nor their projected final costs.

Use of New Construction Technology

Given the substantial cost savings observed in the New York model program, one of the selection factors for the federal Nehemiah program was the extent to which grant applicants proposed using construction methods that would reduce the cost per square foot below the average construction cost in the market area. As indicated in Chapter 2, the use of cost-cutting mass construction techniques, including off-site modular systems and prefabricated components was limited to three first-round projects—Baltimore, Chicago, and Woonsocket. There appear to be three main reasons why this happened:

- ***Lack of Market Aggregation.*** Large-scale construction programs such as that in New York count on being able to reduce per-square-foot building costs by buying materials and purchasing subcontractors' services for hundreds of units at a time. Modular building systems based on off-site prefabricated components are cost effective when large numbers of units can be delivered on a predictable schedule in a short period of time. In the first-round Nehemiah projects, Baltimore was the only project able to maintain a sufficient flow of pre-sold units to be able to take full advantage of the cost-savings of modular systems, and to negotiate favorable prices with materials providers and subcontractors. In the two other sites where off-site construction systems are being used, the direct costs per square foot of construction have turned out to be more expensive than prevailing local costs for conventional construction. In Chicago there has not been a sufficient volume of units built at any one time to be able to bring down construction costs, even though the primary building components have been manufactured off-site. In Woonsocket the low-construction costs per square foot for modular units delivered to the site in phase two have been off-set by very high infrastructure and underground utility costs.

- ***Use of Local Construction Workers.*** Because one of the goals of the Nehemiah program is to increase employment among residents of Nehemiah neighborhoods, several first-round projects have made this goal an explicit part of their construction program (Portland, Chicago, and Tifton). The commitment to local hiring of work crews and subcontractors tends to limit the use of large-scale systems building techniques that frequently rely on trucking in modules or components that were manufactured in other localities and installed by special crews.

- ***Absence of Project Management Systems.*** The use of off-site manufactured building systems requires a special management capacity to plan, track, and coordinate the building process. Foundations and infrastructure systems have to meet strict dimensional tolerances and be ready to receive building modules according to detailed schedules. All events in the process have to be carefully coordinated among a wide variety of actors, including city agencies, prime and subcontractors, materials providers and financial institutions. In many cases, the less-experienced sponsors of first-round Nehemiah projects lacked the project management capacity to assure the integration of all components and the smooth delivery of completed homes. In most cases, because sponsors were unable to sell a large number of units all at once, there was no need to build this special project management capacity anyway.

These limitations—especially the lack of a sufficient market—precluded the use of manufactured building systems in nine out of 12 of the active first-round sites. Moreover, in two of the three sites where they were used, costs per square foot of construction were higher than local conventional building costs because of other factors such as infrastructure and finishing costs.

3.3 Nehemiah Sales Prices, Market Values, and Development Costs

This section examines the prices at which Nehemiah homes have been sold and the relationship of these sales prices to total development costs and market values. In a typical housing market, these three figures—cost, price, and value—will be roughly equal. However, sponsors in most Nehemiah projects have priced the dwellings well below development costs, in order to make the units affordable to low- and moderate-income households, and to induce homebuyers to invest in neighborhoods they might not otherwise consider. At the same time, the sales prices tended to be higher than their estimated market values to unsubsidized buyers, according to local real estate experts. Subsidized financing and other assistance (such as grants for closing costs or downpayments) have made it possible for low-income buyers to pay a somewhat higher price and support a larger mortgage than they would otherwise be able to afford. Homebuyers appear to be willing to accept these higher purchase prices, given the low monthly costs of the units and the possibility that the units will appreciate in time. These higher-than-market prices also make it possible for sponsors to cover more of their development costs, thus reducing up-front subsidy needs.

How Sales Prices Are Set

At the time of the second site visits, not all Nehemiah project sponsors had achieved sales to homebuyers or even completed pre-sales agreements. However, all had established target sales prices. The present analysis uses the pricing schedules current for the projects at the time of the second site visits (summer 1993). Nehemiah sales prices have been subject to change, either upward due to rising costs of construction, or downward due to design changes or lack of buyers. Typical sales prices are shown in Exhibit 3-5.

The targeted sales prices for Nehemiah homes are established by Nehemiah project sponsors primarily based upon three considerations:

EXHIBIT 3-5

COMPARISON OF TOTAL DEVELOPMENT COSTS, MEDIAN NEHEMIAH SALES PRICES AND ESTIMATED MARKET VALUES

Site	Units	Total Development Cost/Unit	Typical Sales Price/Unit	Estimated Market Value/Unit	Direct Capital Subsidy
Baltimore	300	$88,515	$62,500	$45,000	$26,015
Shelbyville	18	53,153	$29,667	32,000	23,486
Clairton	50	41,933	$35,905	28,000	6,028
Gary	41	71,812	$45,000	45,000	26,812
Chicago	169	86,248	$73,040	73,000	13,208
Tifton	50	60,914	$55,000	55,000	5,914
Woonsocket	50	108,968	$104,000	110,000	4,968
Portland	250	87,331	$75,720	75,000	11,611
Tuskegee	52	54,384	$46,000	46,000	8,384
Pittsburgh	24	145,220	$77,000	45,000	68,220
Washington	132	135,318	$114,544	104,000	20,774
Des Moines	50	72,664	$66,155	63,975	6,509
Aguadilla	Canceled				
Camden	Canceled				
Highland Park	Canceled				
Total 1993	**1186**	**$88,755**	**$71,422**	**$64,972**	**$17,333**
Percent of Total Development Cost		**100.0%**	**80.0%**	**72.8%**	

Source Nehemiah sponsor estimates of projected full development costs and Nehemiah sales prices, local realtor estimates of market vales of comparable properties

* Averages are weighted by the number of units in each of the 12 sites

- ***Total development costs per unit,*** reduced by any contributions and direct or indirect subsidies to minimize out-of-pocket costs for the sponsors and for the buyers;

- ***Affordability of the home to the target buyers*** (households with incomes below the median income of the MSA) based on what they can afford to pay for monthly housing costs (typically about 30 percent of income for principal, interest, taxes and insurance, plus estimated utilities); and

- ***Available first-mortgage financing*** (typically, state housing finance agency mortgage funds supported by mortgage revenue bonds).

Thus, the sponsor's pricing strategy seems to reflect a balance between covering as many out-of-pocket costs as possible and maintaining the income affordability of the units for as broad a segment of the low- and moderate-income population as possible.

While cost, affordability, and financing are the key variables, market value is also an important limitation on the prices set by project sponsors. There are two reasons for this. In the short run, when development costs and sales prices exceed what a home might re-sell for without subsidy, sponsors encounter difficulties in arranging long-term financing. This is because most lenders rely on market value appraisals (using the standard FHA insurance program or private mortgage insurance) to set limits on the mortgage amount and to limit the risk of the loan. In two sites, the sponsors shifted to the FHA Section 220 insurance program (which permits cost-based appraisals of home values) in contrast to the use of comparables required in all other FHA programs. In Portland, FHA appraisals on the new units were over $10,000 ***below*** the actual cost of construction and several thousand dollars ***below*** the first mortgage amount that banks were otherwise willing to lend. This caused major delays in financing and closing on the first units. In Chicago, appraisals have been provided by private mortgage insurers acceptable to the Illinois Housing Development Authority, and not by FHA appraisers.

The second reason market values are important in setting prices is the re-sale risk to the buyer. If these values are too far below initial sales prices, and if buyers are forced to sell (or transfer) their homes before the market improves, then they risk losing some or all the equity they have invested in their homes, including downpayments, principal payments on the mortgage, any improvements, and other equity investments. The re-sale price may even remain below the first and second mortgages combined, and the latter cannot be assumed by subsequent buyers without HUD approval. In such cases, the loans could not be paid off in full, and the buyer make partial payment or require a waiver from HUD to forgive the Nehemiah second mortgage.[9]

Development cost and affordability were the most visible issues considered by sponsors in setting prices, because in most Nehemiah neighborhoods the market for new or rehabilitated houses is almost nonexistent. Where projections of development costs indicated that sales prices based on those costs would exceed the affordability targets for the program, sponsors:

- looked for additional subsidies and/or contributions to bring net development costs (net of contributions and subsidies) down;
- looked for additional sources of subsidized permanent financing to improve affordability by reducing downpayments or interest rates, helping out with closing costs, etc.; and/or
- sought ways to reduce development costs through design changes or improved technology.

As examples of the last method, the Des Moines Housing Council has removed basements from some units and has made garages and other items optional to reduce the cost and bring the price into the affordable $60,000 to $70,000 range. As development costs in Chicago continue to rise, basements are now an option on new units, not a standard feature as before. In addition, the sponsor will be able to use a new "grade-beam" foundation design that will help to keep construction costs within the budget.

Because market value, development costs, and sales prices are not equal in Nehemiah neighborhoods, measures of market value must be derived independently of cost and sales price. It was not possible to conduct full appraisals of the Nehemiah properties, so this study relied on professional opinions of realtors in the neighborhoods. Interviews with realtors focused on questions regarding recent comparables.

9. While repayment is still required, a 1992 amendment now permits HUD to accept partial payment if proceeds from sale are not sufficient to make a full repayment. Any proceeds over the amount needed to repay the first mortgage plus the sellers' downpayment will be shared equally between HUD and the seller until the Nehemiah loan is paid.

Comparison of Total Development Cost, Sales Prices, and Market Value

Exhibit 3-5 compares estimated total development costs (reflecting the sponsors' out-of-pocket costs plus contributions and other subsidies) with Nehemiah sales prices and with estimates of market value for similar properties in each of the Nehemiah sites. Total development costs per unit represent what a private developer might have to pay to carry out the project, paying all costs without the benefit of subsidy or contribution from the public or private sector. They therefore include contributions of land, donated legal services, free utility connections, and waived fees that the private sector would normally have to pay in cash. Sales prices are representative of the typical or median unit offered by the sponsor—in most cases a three-bedroom, 1-1/2 bath home with approximately 1,200 square feet. Estimated market values for the same size units were obtained from local realtors who were familiar with the project and neighborhood.

The exhibit shows substantial differences among development costs, sales prices, and market values in some of the sites. Development costs are typically higher than both sales prices and market values, on average $17,333 above sales prices. In addition, sales prices are about $6,450 higher than estimated market values. In five sites (Baltimore, Shelbyville, Gary, Pittsburgh and Washington) the differences between sales price and market value are substantial (more than $20,000). ***The long-term issue of what families will do when they have to sell for potentially less than the outstanding first and second mortgages has not been fully addressed***; however, the recent amendment permitting HUD to accept partial payment on the Nehemiah second mortgage and to share the proceeds from sale does reduce the buyers' risk substantially.

In Chicago, total development costs over $86,000 per unit are well above the planned typical sales price of $73,000, which the sponsor considers affordable to the target buyers. Similarly, estimated development costs of more than $108,900 per unit for the next phase of development in Woonsocket are above the median sales price of $104,000. City contributions of building sites, CDBG funding of site development costs, state and local subsidies, and other forms of financial support have been sought to cover the difference. Like Woonsocket, most other Nehemiah project sponsors have been able to obtain free land for their projects, as well as infrastructure at reduced costs, and in some cases contributed services or waived building fees.

Where total development costs are close to appraised values, and appraisals are not a concern to lenders, ***sponsors seem willing to sell the homes at more than appraised value.*** For example, the per unit price of $35,905 for the Clairton project units is greater than the previous bank appraisals of $28,000, but the sponsor believes that the price is reasonably close to the market value, so that there is little risk to the homebuyer. Similarly, in Baltimore the sponsor's sales prices are sufficient to cover hard and soft construction costs plus legal and marketing expenses, but they are far below full development costs and above appraised values. In these sites, sponsors seem to feel that the risk to the buyer is minimal, once the project's value to the neighborhood is established. In Chicago, for example, the number of Nehemiah sales in the West Garfield Park neighborhood is felt to be sufficient to permit the lender's use of previous Nehemiah sales as comparable properties.

It is important to recognize that housing markets are constantly changing. Values and prices can move up or down over time. Consequently, the analyses contained here, and in particular the estimates of development costs and subsidies, are subject to revisions as market conditions change and development proceeds.

Capital Subsidies

In Exhibit 3-5 above, the difference between total development cost (column 2) and sales price (column 3) is shown as a direct capital subsidy (column 5).[10] This direct capital subsidy is a principal factor in making the units affordable to lower income buyers. In addition, most buyers receive other subsidies that further reduce the amount of financing needed or lower the amount of monthly payments required on existing debt (see Chapter 4).

The largest direct capital subsidies are in Pittsburgh ($68,220), Gary ($26,812), and Baltimore ($26,015). The smallest differences are observed in Woonsocket, Clairton, Tifton, and Tuskegee, where the difference between total development cost and sales price is less than $9,000. The average capital subsidy across all active sites is $17,333.

10. In one site, Woonsocket, the Nehemiah sponsor sold initial units at a price that was below the estimated market value of the units The difference between this "bargain" price and the market value creates a special kind of subsidy to the buyer alone that would not be there without the Nehemiah program. In the remaining sites, sales prices are at or above estimated market values.

Theoretically, if sales prices exceed market values, measures of the direct capital subsidy flowing to Nehemiah homebuyers should be reduced by the difference between sales prices and market values. The reason for this is that resale at today's value would cause the homeowner to lose this money, thereby offsetting the additional value received by purchasing the Nehemiah home below-cost. At the present time, however, such calculations are premature, primarily because estimates of current market value have not been validated by comparable sales or resales of Nehemiah units, and because of the safety factor of the "homeowners incentive" amendment.

Another concern is the widening gap between development costs and sales prices, also shown in Exhibit 3-5. In 1992, sales prices were 17 percent below total development costs. In the intervening year-and-one-half, that gap widened to 20 percent, and the direct capital subsidy increased from $10,793 to $17,333—a jump of 61 percent. Policy makers may ask themselves at what point it is no longer worth the increasing subsidy. Few Nehemiah sponsors or localities have addressed this question directly; however, more may do so in the future as alternative HOME and HOPE3 program options become clear (see Chapter 5).

Sponsor Efficiency

Rising development subsidies raise the difficult issues of inefficiency and waste. It is possible to imagine that not all development costs incurred by Nehemiah projects were productive, adding directly to the value of the dwelling units. Indeed, the innumerable delays in starting the projects or resolving development issues probably caused a number of additional expenses that would not otherwise be incurred (e.g., unproductive staff time, additional interest expense). There are no direct measures of the costs generated by inefficiency and waste, but over the lifetime of those projects they could be substantial. The point is that additional development subsidies may be covering some costs that would not necessarily be incurred in a more efficient program.

Unfortunately, there are no comparable developments in these sites that might allow direct comparisons. However, comparisons of per square foot construction costs for the Nehemiah units with estimates derived using the R.S. Means construction cost manual suggest that these costs are comparable with industry standards in many sites. Sites where costs exceeded Means costs were: Woonsocket, Chicago, Washington DC, and Portland; sites where per-unit construction costs were substantially lower than the estimated Means costs were Baltimore, Shelbyville, and Clairton.

Conclusions on Cost, Price, and Value

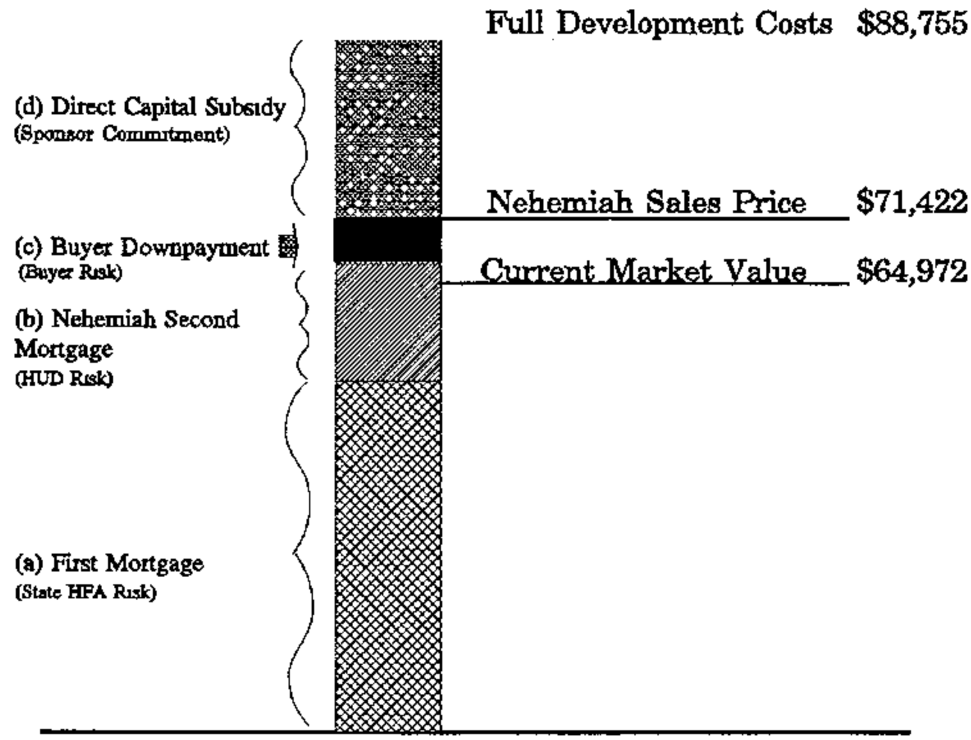
As described above, total per-unit development costs are higher than the sales prices for the units in all sites, and with the exception of Woonsocket, sales prices exceed local estimates of market value. In Washington and Pittsburgh, the differences between development cost and estimated market value exceed $10,000 and $32,000 per unit, respectively. These differences suggest a potential risk for some homebuyers in the future, if they have to sell before market values catch up to the price the homebuyers paid, plus closing costs and any improvements.

A direct capital subsidy results from the difference between the total development costs and sales prices. At an average $17,333 per unit, the difference may be characterized as a write-down to achieve affordability targets, to benefit the homeowner and/or the neighborhood. On the other hand, some of these development costs may in fact be partially the result of waste or mismanagement. It is too early to tell at the present time.

Figure 3-1 provides a schematic diagram of how total development costs, Nehemiah sales prices, and market values differ for the average Nehemiah unit. The shaded column shows the approximate relationship of these three numbers in the summer of 1993. As discussed above, all three figures have increased over the last year-and-one-half. The left side of this diagram shows the different sources of funding that are used to support the Nehemiah project and which are therefore at risk in the event of default. In order of priority they are: (1) the first mortgage (typically held by a state housing finance agency); (2) the second mortgage (HUD) and any other, third mortgages; (3) the buyer's downpayment; and (4) other development subsidies (grants) assembled by the sponsor to make up the difference between total development costs and the Nehemiah sales price. Project sponsors never recover the last amount, since by definition development subsidies are used to lower the sales price below actual cost in order to achieve the affordability targets of the project.

One of the underlying purposes of the Nehemiah program is to leverage federal funds to induce neighborhood (re)investment by building confidence. The sales of Nehemiah units may induce others to invest, thereby creating a housing market where there may not have been one before. At this stage in the program, with only one-third of all units built, it is difficult to tell

FIGURE 3-1: DEVELOPMENT COST, SALES PRICE & VALUE



whether these kinds of trends may be underway. In the meantime, total development costs (and hence the capital subsidies required to support them) are increasing above the original budgets, and (with certain exceptions) market values have not yet caught up to sales prices. The longer it takes sponsors to build and sell their units, the more expensive the projects are likely to become—both for the homebuyers (who pay higher sales prices) and for those providing additional capital subsidies (e.g., city CDBG programs) to keep the projects going.

On the basis of these preliminary analyses, construction costs—as the largest component of total development costs—continue to appear reasonable in most sites relative to standardized residential building costs. However, these costs are increasing at a rate faster than inflation and faster than sales prices. Various development subsidies (e.g., contributions, discounts, foregone fees, donated land) are used to reduce the price required of buyers down to the Nehemiah sales price. In every one of the 12 active Nehemiah projects thus far, this capital development subsidy (in combination with the operating subsidies provided by the interest-free Nehemiah second mortgage, and often by below-market-interest-rate first mortgage loans) seems sufficient to make homeownership available at a price affordable to a very low-income population. If project costs continue to rise, however, subsidy costs will also need to increase.

3.4 Implementation Schedules and Issues

The 1989 Nehemiah grantees have progressed very slowly in the production of the Nehemiah units, and have fallen significantly behind their original project schedules. According to their proposals, virtually all of the projects were to have been completed by the end of 1992. However, as of mid-1993, nearly four years after award, only nine of the 12 sites had produced any units, and only one site (Baltimore) had completed the construction and sale of all its units. Overall, the Nehemiah grantees have produced and sold only about a third of their currently planned units, and the substantial majority of these units had been produced in Baltimore.

Exhibit 3-6 displays the original completion date for each grantee, the current revised completion date (as of mid-1993), and the number of months each is behind schedule. The differences between original and current schedules are portrayed graphically in Figure 3-2. Only one site, Gary, had originally proposed a lengthy development period of five years, and accordingly it is the only site that appears close to meeting its original schedule (although it has completed only one of four phases, so that the projected completion date could easily change.) In the other sites, development was to have been completed by the end of 1992—roughly three years from grant award in late 1989. This appears to have reflected overly optimistic planning and scheduling on the part of the grantees. Even allowing for 12 months of delay in grant agreement execution and start up time, the typical site is now over two years behind schedule.[11]

Exhibit 3-6 also identifies some of the main reasons for schedule delays at each site. Ultimately, it appears that there are three compelling reasons for the universal schedule delays: (1) unrealistic original schedules and expectations on the part of sponsors who did not anticipate all of the complexities of large-scale development; (2) the time and effort required to clarify and meet the requirements of a new program; and (3) the challenges of achieving sales (particularly pre-sales) in slow real estate markets. Despite the relatively thorough applications the sponsors

11. There was considerable initial delay in getting many of the Nehemiah grant agreements signed and documents approved. Many sites also had difficulties initially in getting clarifications from the program office regarding key elements of their program designs.

EXHIBIT 3-6

NEHEMIAH PROGRAM SCHEDULE

Site	Original Completion Date	Revised[1] Projected Completion Date	Months Behind Original Schedule	Reasons for Schedule Delay
Baltimore, MD	11/91	7/93	20	Long bidding process for contractors Delays in financing, site clearance, rail right-of-way
Shelbyville, KY	9/91	12/93	27	Slow sales of rehabilitated units, failure to pre-qualify residents
Clairton, PA	1/91	3/95	51	Slow grant/document approval by HUD. Sponsor was selling units prior to rehabilitation and HUD refused to honor vouchers Market slow-down
Gary, IN	8/95	1995	0[2]	Signed HUD grant agreement not received until late 1990 Site clearance problems No staff Difficulties marketing townhouses units
Chicago, IL	12/92	12/95	36	Built 19 homes before pre-sale requirement met, project went on hold pending HUD decision Market downturn Suspension due to audit findings
Tifton, GA	10/92	8/96	46	Delay in receiving pre-sale waiver and other clarifications, slow market
Woonsocket, RI	12/92	12/95	36	Sponsor did not meet pre-sale requirement, so HUD funds suspended Site problems Sales problems Cost overruns. Staff turnover
Portland, OR	12/92	6/95[3]	30	Key staff turnover Conflict on role with City agency Site acquisition delays Low appraisals Difficulty finding qualified buyers
Tuskegee, AL	1/92	1/95	36	HUD waiver requests and program documents Delay in CDBG site development funds
Pittsburgh, PA	6/91	11/95	53	Soil contamination problems
Washington, DC	7/91	1995	47	City waivers and clearances, construction financing 100 HODAG units to be completed first
Des Moines, IA	1/91	N/A	N/A	Slow city land assembly Staff change Requested five HUD waivers and . .
Aguadilla, PR	5/92	N/A	N/A	Cancelled
Camden, NJ	12/90	N/A	N/A	Cancelled
Highland Park, MI	11/92	N/A	N/A	Cancelled

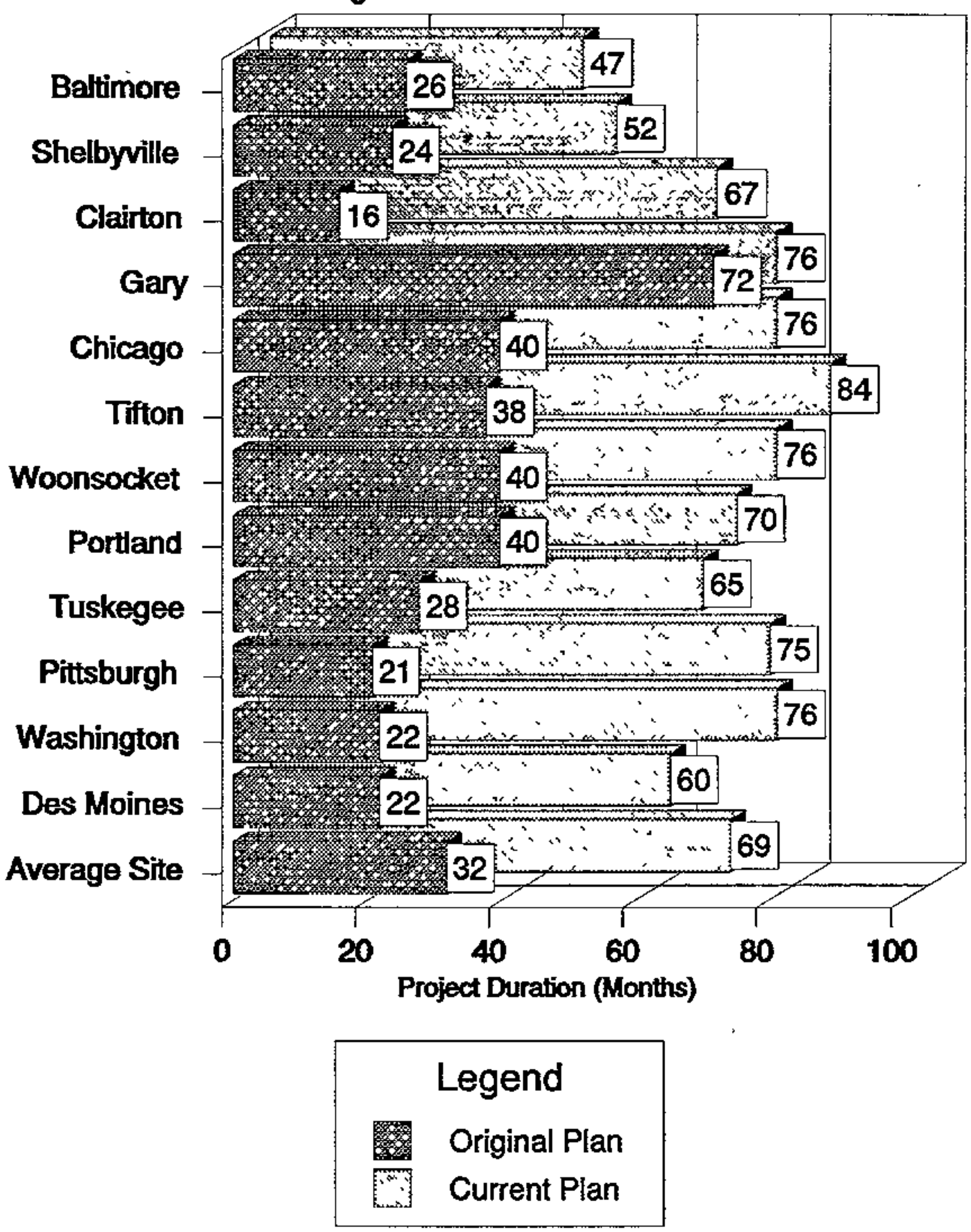
[1] Revised dates are based on new completion schedules collected during the site visits in mid-1993

[2] Gary originally predicted a five-year project period Gary currently plans to complete the next-to-last phase by 5/94 The final phase of ten units is not yet scheduled

[3] Current production rate does not support this estimate

Fig. 3-2: Nehemiah Project Duration (Months)

Original and Current Plans



submitted, few were fully prepared to initiate the program at the time the grants were awarded. The exceptions were four sites where the Nehemiah units were part of previously existing and/or parallel homeownership efforts (including those where the sponsors had direct ties to the New York Nehemiah model.) However, even in the sites that were poised to begin quickly, two of the four programs ran into early difficulties with the 25 percent pre-sale requirement leading to temporary suspension of activities by HUD. Moreover, both experienced and inexperienced sponsors encountered delays in clarifying the Nehemiah rules and found themselves posing questions and issues without precedent in the new program. The result was paralysis in some sites where major decisions hung on HUD's answers.

With respect to the pervasive impact of the economic recession during the 1990-1992 period, many sponsors who had started marketing their projects early on found their waiting lists dried up rapidly as the recession grew. For example, Woonsocket had over 30 families signed up for their first six units in the fall of 1989. After a one-year delay in starting the program, none of these prospects were still interested. Many had lost jobs, and most felt it was the wrong time to buy. A similar fall-off in interest (and financial capability) was reported in Chicago and Portland.

3.5 Design Changes and Project Evolution

In order to keep their projects going, sponsors had to adapt them to the realities of implementation after the grants were awarded. None of the 12 active Nehemiah projects has been implemented without some adjustment in the original development plan. These changes are important because they cause project delays. For some sponsors like the Enterprise Foundation and ACTION Housing, changes have been minor, resulting as much from normal adjustments to newly-implemented regulations as from the sponsors' desires to take advantages of opportunities that were not available at the time of application. In other cases, however, changes to the original design have been substantial, affecting both physical design of the units and the management and scope of the project. Exhibit 3-7 summarizes major areas of change for each of the 12 active projects. Changes are categorized with respect to scope (number of units to be built), project site and infrastructure, project design, project cost and sales prices, and/or project organization and management. The Enterprise Foundation project in Baltimore (now completed) is the only one not to have experienced significant changes in one or more of these categories.

Column 2 shows that the withdrawal of the Aguadilla, Camden, and Highland Park projects from the program, along with unit reductions in Shelbyville and Pittsburgh, have resulted in a 10 percent decrease in the total number of units to be completed—from 1,321 to 1,186. Reasons for the cancellations and changes in scope are summarized in Chapter 2. Column 3 shows that five of 12 projects experienced major changes with respect to site selection and site preparation. In the most extreme example, Pittsburgh had originally planned to spend about $23,600 per unit (based on 24 units) on site acquisition, land improvements, and related work; current budgets are nearly $60,000 per unit for the same work because of much higher costs for hazardous waste removal and infrastructure investment. Similarly, in Woonsocket the unexpected difficulties and high costs of site development forced the sponsor to find alternative locations for the remaining 44 units after the first six were built, and to restructure the entire project, including design, financing and project organization, and management. It is clear that significant changes in site selection or site work have delayed projects considerably and have had serious impacts on budgets. This happened despite requirements that Nehemiah grant applicants demonstrate firm control of development sites and reasonable cost projections at the time of the application.

Column 4 of Exhibit 3-7 shows that two-thirds of the projects have experienced major changes in the physical design or facilities of Nehemiah units. Many of these design changes occurred as the result of cost constraints, as sponsors discovered their original designs were going to exceed the resources available or would make the units unaffordable to their target homebuyers. In other cases such as Portland, the changes reflected adaptations of numerous affordable housing designs to the needs of individual buyers, to the extent that practically every home is custom-built. These design variations have added considerably to the costs of the units in this site.

Six out of 12 projects have required changes in the financing of the project (column 5), and every project except Baltimore has experience substantial cost and price increases (column 6). In the case of financing, changes have ranged from replacement of the first mortgage lender (Tifton) to the establishment of a consortium of six banks to underwrite construction and mortgage financing and confront low FHA appraisals (Portland). Many times, changes in

Exhibit 3-7

CHANGES IN NEHEMIAH GRANTEE PROGRAMS

(1) Site	(2) Planned/ Current Units	(3) Changes in Site or Site Work	(4) Changes in Design and Facilities	(5) Changes in Financing Mech-anisms	(6) Changes in Cost or Price	(7) Changes in Organi-zation/ Manage-ment
Baltimore, MD	300/300	No	No	No	No	No
Shelbyville, KY	24/18	Yes	Yes	No	Yes	Yes
Clairton, PA	50/50	No	No	No	Yes	No
Gary, IN	41/41	No	No	Yes	Yes	Yes
Chicago, IL	169/169	Yes	Yes	Yes	Yes	Yes
Tifton, GA	50/50	No	Yes	Yes	Yes	No
Portland, OR	250/250	Yes	Yes	Yes	Yes	Yes
Woonsocket, RI	50/50	Yes	Yes	Yes	Yes	Yes
Tuskegee, AL	52/52	No	Yes	No	Yes	No
Pittsburgh, PA	36/24	Yes	Yes	Yes	Yes	No
Washington, DC	132/132	NA	NA	NA	NA	NA
Des Moines, IA	50/50	No	Yes	No	Yes	Yes
Aguadilla, PR	50/Cancelled					
Camden, NJ	17/Cancelled					
Highland Park, MI	44/Cancelled					
TOTAL	1,321/1,186	5 of 12 Yes	8 of 12 Yes	7 of 12 Yes	10 of 12 Yes	6 of 12 Yes

NA – Information not available pending start-up project financing have been required by unforeseen increases in project costs. The latter have not only raised the minimum incomes required to support the purchase of Nehemiah units, but they also have forced several sponsors to find additional resources, either to cover the higher costs, or to provide homebuyers with additional assistance such as grants for downpayments.

The last column of Exhibit 3-7 shows that half of the 12 active projects have experienced significant changes in the organization and management of their projects. These have ranged from a modest amendment of the management structure in Shelbyville (to acquire the services of a local bank to provide local project oversight) to a major reorganization of the entire project in Portland. In the latter case, a change in leadership and staffing and the refocusing of the project were essential for keeping the project alive after political wrangling and major delays had severely undermined the credibility of the sponsor.

The many changes in the development programs on the first-round Nehemiah grantees suggest the following observations about project implementation:

- Many sponsors were not fully prepared to begin their projects, despite detailed applications, because development details had not yet been addressed (unit designs, financing, title clearance, site investigations, etc.);

- Several sponsors were unaware of (or ignored) key issues likely to affect financing or implementation (e.g., FHA appraisals in Portland, pre-sale requirements in Chicago and Woonsocket, and site contamination problems in Pittsburgh);

- Some of the sponsoring organizations were underfinanced, under-staffed or unstable, requiring a major effort to strengthen their management capabilities or secure additional outside intervention before the development could proceed (Woonsocket, Portland, Des Moines, Gary).

Changes in one aspect of the development program (e.g., site work) typically rippled through the entire project and required numerous adjustments (in pricing, financing, project management, scheduling, and marketing). For most sponsors, then, change was a solution for curing a weakness in the project, but was also the cause of delay and higher cost.

3.6 Implementation Lessons

The lessons afforded by the implementation experience of first-round Nehemiah grantees fall into three interrelated areas: planning and preparation, project management, and marketing.

Few first-round Nehemiah sponsors were completely prepared to undertake their projects once the grants were awarded. The inadequacies of planning and preparation tended to show up in three areas—finance, production, and sales. Though long-term mortgage funds had been identified, front-end funding to support pre-development work was in very short supply and had to be secured from multiple sources. Most projects had not anticipated the need to be able to sustain a long development period, nor did they have the "deep pockets" of the Enterprise Foundation or ACTION Housing to do so. With few exceptions, financial and project management systems were inadequate to the task of tracking detailed costs on a daily or unit-by-unit basis (at least at the beginning of the project). This made the task of cost control practically impossible.

In the production arena, few sponsors had project management systems that could be used to manage strict budgets, integrate tasks and schedules, and implement clearly defined procedures. These tended to be developed after the fact (if at all). The style of management was reactive, rather than proactive, with the result that potential problems were not anticipated, but had to be dealt with after they had occurred.

Finally, in the area of sales and marketing, many of the project sponsors assumed that if they built decent housing and made it available at a low price, there would be no problems selling the units. This assumption was incorrect for several reasons. First, few sponsors anticipated the downturn in the economy or prepared contingency plans for dealing with the changes in financial and marketing conditions. Second, most sponsors underestimated how hard it would be to find qualified low-income buyers with sufficient resources for downpayments and also had credit histories that would meet underwriting standards. Baltimore was the only project with a waiting list sufficiently large for sales to proceed at a pace almost equal to production capacity.[12] The secondary effect of not having buyers lined up to occupy units once they were completed was that the development period was stretched out significantly. Without sufficient resources internally, sponsors were caught having to produce units either serially, or in small batches in order to finance later production, and potential economies of scale were lost.

12. It is noted that two out of three buyers in Baltimore had to be attracted to the project from outside the neighborhood. In other sites, the large majority of buyers are frm the Nehemiah neighborhood.

CHAPTER FOUR
PROJECT OUTCOMES

Previous chapters of this report have described the basic structure of the 15 Nehemiah projects and the sponsors' experiences implementing these projects over the past four years. This chapter focuses on project outcomes, including the characteristics of households who have purchased Nehemiah units, the extent to which the program is producing affordable housing, the mechanisms and costs of meeting affordability goals, the likely impacts of the Nehemiah projects on the neighborhoods in which they are located, and the role of the projects in increasing employment opportunities for neighborhood residents.

As described elsewhere, the still-early status of most of the projects means that information on impacts is preliminary. Nevertheless, in this chapter we provide initial assessment of the extent to which program goals (creating affordable housing, stimulating neighborhood revitalization, and increasing neighborhood employment) are being achieved. Although the Nehemiah program has been cancelled, the results should be useful for the design of similar federal and local homeownership efforts.

4.1 Increasing Affordable Homeownership Opportunities

Nehemiah Purchasers

As of late 1993, roughly 35 percent of the Nehemiah units proposed by the 12 active grantees had been completed and sold. Data are available for 419 purchaser households. However, one site, Baltimore, accounts for 300 of these homebuyers. Thus, any discussion of purchaser characteristics must be qualified by the fact that current purchasers represent only a small proportion all of buyers in most sites, and that these early buyers (so heavily from a single site) may not be typical of the full program.

As described in Section 2.4, almost all of the Nehemiah grantees targeted very low-income households (under 50 percent of median) for the Nehemiah units, with several targeting households with incomes as low as 25 percent of median. Program rules only require grantees to sell homes to households with incomes under the median income of the Metropolitan Statistical Area (or below the national median income, whichever is higher). Exhibit 4-1

EXHIBIT 4-1

DISTRIBUTION OF PURCHASER INCOMES AS A PERCENTAGE OF SECTION 8 AREA MEDIAN INCOME

Percent of Area Median	Baltimore $n = 300$	Shelbyville $n = 12$	Clairton $n = 24$	Gary $n = 2$	Chicago $n = 31$	Tifton $n = 6$	Woonsocket $n = 6$	Portland $n = 25$	Tuskegee $n = 2$	All Sites
< 20		25%	4%		10%					2%
21 - 40	49%	33%	42%		10%			4%		41%
41 - 60	45%	33%	42%		45%	17%	17%	56%		44%
61 - 80	5%	8%	12%	100%	23%	50%	33%	36%		10%
81 - 100					13%	17%	33%	4%		2%
> 100						17%	17%		100%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Average Percentage	**42%**	**34%**	**43%**	**61%**	**52%**	**82%**	**77%**	**56%**	**127%**	**44%**

Median Buyer Income	$17,935	$11,215	$15,000	$23,859	$23,458	$22,464	$32,408	$20,400	$30,000	
Section 8 Area Median	$44,100	$35,000	$36,200	$39,000	$48,400	$28,000	$40,300	$39,400	$22,200	

confirms that the programs are serving a large proportion of very low-income households. The exhibit shows the distribution of actual purchaser incomes in each site, expressed as a percentage of the area median.[1] In Baltimore (which dominates the data), roughly half of the purchasers had incomes under 40 percent of area median. The same is true in Shelbyville and Clairton. Buyers in Gary, Chicago, and Portland had incomes that were slightly higher relative to the area median; nevertheless, the vast majority had incomes of less than 80 percent of median. Only in Tifton, Woonsocket, and Tuskegee did any buyer incomes exceed 100 percent of median, but these purchasers were still in the minority (with the exception of Tuskegee, where only two homes have been sold to date). Across all sites, only 13 percent of the buyers had incomes exceeding 60 percent of median, and the average buyer had an income of just 44 percent of median.

Exhibit 4-2 presents information on the characteristics of purchaser households, again by site. Overall, these households tended to be small, averaging 2.3 persons. About 60 percent of these are households with children, and nearly 70 percent are female-headed. The site with the lowest proportion of households with children is Clairton, where many of the purchasers are younger singles and older retirees. The average age of the household head is 38 years across all sites.[2]

The vast majority of purchasers are African-Americans, accounting for 90 percent of the total. Hispanics make up a very small percentage (1 percent), and whites account for the remaining 9 percent. Based on sponsor data, about half of the purchasers came from the neighborhoods where the Nehemiah projects are located; the other half were drawn from outside these areas. Roughly 88 percent of the buyers are employed, with most of the remainder retired or disabled. Shelbyville (where purchasers were drawn from among existing renters) has the

1. Purchaser incomes are compared to the local Section 8 Area Median for 1992. No adjustment is made for sites where the national median exceeded this amount

2. These statistics are dominated by the Baltimore site. When Baltimore homebuyers are excluded, figures for household size, family composition, and age of head are not substantially affected. The non-Baltimore buyers do however have a slightly lower proportion of female headed households (60 percent as opposed to 69 percent for all sites together) and a lower proportion of minority households (67 percent as opposed to 91 percent.) Non-Baltimore buyers are also more likely to come from the neighborhood in which the project is located (76 percent as opposed to 46 percent overall.)

EXHIBIT 4-2

CHARACTERISTICS OF NEHEMIAH PURCHASERS

Site	(n)	Average Household Size	Percent w/children	Percent Female-Headed	Average Age of Head	Race of Head: White	Race of Head: African/American	Race of Head: Hispanic	Percent Originally from Neighborhood	Percent Employed
Baltimore	(300)	2.3	62%	77%	39		100%		33%	97%
Shelbyville	(12)	1.7	NA	NA	NA		100%		100%	50%
Clairton	(24)	2.0	38%	54%	38	92%	4%	4%	21%	75%
Gary	(2)	2.0	50%	50%	35	NA	NA	NA	50%	100%
Chicago	(42)	3.2	69%	62%	37		93%	7%	100%	96%
Tifton	(6)	3.0	67%	67%	41		100%		100%	83%
Woonsocket	(6)	3.5	100%	33%	38	100%			50%	100%
Portland	(25)	2.7	72%	64%	36	40%	60%		76%	NA
Tuskegee	(2)	3.0	100%	100%	45		100%		100%	100%
All Purchasers	**(419)**	**2.3**	**60%**	**69%**	**38**	**9%**	**90%**	**1%**	**46%**	**88%**

lowest proportion of working households as well as the lowest incomes relative to median.[3]

Purchaser characteristics were also compared with those of neighborhood residents (or residents of the locality, in the case of Shelbyville and Tuskegee). Median purchaser incomes exceed neighborhood incomes by a substantial margin in most sites.[4] Purchasers in Gary have the highest incomes relative to the neighborhood: the first two buyers there have incomes in excess of three times the neighborhood median. In three sites, however, the median buyer income is less than that for the neighborhood. These sites are Clairton, Shelbyville, and Portland. The median income of Shelbyville buyers was only a quarter of that of the surrounding area. Shelbyville buyers were also the only group who were *less* likely than their neighbors to have any income from earnings. Elsewhere, the Nehemiah buyers were more likely to have employment income than neighborhood residents (eight out of nine sites), tended to include a higher proportion of minorities (seven of the eight sites with complete data), and tended to have more female-headed households (seven of eight sites with data).

Financing Approaches and Homeownership Costs

The above discussion indicates that most of the Nehemiah projects appear to be meeting the affordability goals of the program. To date, the income of the typical homebuyer is just 44 percent of median. Achievement of this high degree of affordability is due to subsidies provided to reduce the initial sales price of the unit and/or to reduce its carrying costs over time. Chapter 3 provided detailed information on the construction process for the Nehemiah units, including the capital subsidies (writedowns) associated with the Nehemiah sales. This section expands on that discussion by describing a variety of additional financing subsidies that further reduce the costs of owning a Nehemiah unit. These include:

- Below-market interest rate (BMIR) first mortgage loans;
- The deferred Nehemiah second mortgages; and
- Additional grants and forgivable deferred loans which reduce the amount that must be covered from downpayments and amortizing loans.

---

3. SSI appears to be the primary source of income for roughly half of the Shelbyville purchasers.

4. Median values for purchaser and neighborhood incomes are: Baltimore $17,935/$14,654; Shelbyville $11,215/$30,156; Clairton $15,000/$19,149; Gary $23,859/$7,069, Chicago $23,458/$16,153; Tifton $22,464/$17,373; Woonsocket $32,408/$23,569; Portland $20,400/$21,567; and Tuskegee $30,000/$15,531.

Exhibit 4-3

TYPICAL PERMANENT FINANCING ARRANGEMENTS BY SITE

Site	Market Rate First Mortgage	BMIR First Mortgage	Nehemiah Second Mortgage	Other Loans	Grants	Cash to Close (after grants)	Total (incl. closing)
1. Baltimore		$37,500	$14,000	$6,500	$3,750	$750	$62,500
2. Shelbyville	$13,476		$12,944	$1,218	$3,462		$31,100
3. Clairton		$19,451	$13,394		$3,959	$200	$37,004
4. Gary	$29,250		$15,000			$2,250	$46,500
5. Chicago		$55,388	$15,000			$5,120	$75,508
6. Tifton	$35,500		$14,000			$5,800	$55,300
7. Woonsocket		$83,800	$15,000		$3,000	$5,200	$107,000
8 Portland		$59,720	$15,000		$390	$3,906	$79,016
9. Tuskegee		$28,700	$15,000			$2,500	$46,200
10. Pittsburgh		$38,500	$15,000	$21,190	$1,000	$1,310	$77,000
11. Washington[a]		NA	NA	NA	NA	NA	NA
12. Des Moines		$49,400	$15,000			$2,914	$67,314
Total (all units)	**$3,216,818**	**$45,589,522**	**$15,342,692**	**$2,480,484**	**$1,656,766**	**$3,026,170**	**$71,312,452**
Percent of Total	**5%**	**64%**	**22%**	**3%**	**2%**	**4%**	**100%**

[a] Information not yet determined, amounts not included in total

Exhibit 4-3 shows financing arrangements for a typical homebuyer at each of the 12 active sites. As indicated, BMIR first mortgage loans are the primary source of financing, used in nine of the 12 sites. In most cases, BMIR financing was provided through the state housing finance agency; however, in two cases BMIR mortgages or loans were provided by a local government. Use of state or local government financing was viewed as desirable by most of the sites, both because of the below-market interest rates and because such loans typically carry low downpayment requirements ***which override the 10 percent requirement of the Nehemiah statute.***

By contrast, relatively few sites are using conventional, market-rate loans for the first mortgage. One of the exceptions is Gary, where Bank One is providing 30-year loans at 7 percent and has recently introduced a new program with a 3 percent downpayment requirement and without private mortgage insurance. Both Bank One and another local bank in Gary have become interested in Nehemiah as a way to help meet CRA requirements. A second site (Shelbyville) turned to market-rate loans from a local bank after the state HFA refused to underwrite several of the initial sales because homebuyers were judged to be poor credit risks and/or because the buyers could not provide downpayments from their own resources. Finally, the Tifton program has sought out new lenders as a result of processing delays and other problems with the bank that originated and serviced state HFA loans.

The deferred-payment Nehemiah loans provide the next most important source of homebuyer financing. Four of the 12 active grantees initially requested less than the maximum per unit Nehemiah grant of $15,000. These included Clairton (at an average of $12,500 per unit) and Baltimore and Tifton (at $14,000 per unit). Shelbyville originally requested an average grant of $9,320 per unit but has since reduced the total number of units in the program, thus raising the per unit Nehemiah amount.

In addition to BMIR first mortgages and Nehemiah seconds, three sites are providing third mortgages to make the units more affordable. In Pittsburgh, this is a deferred-payment, forgivable loan provided by the Urban Redevelopment Authority. Initially, the city budgeted $10,000 per home for third mortgages; however, in order to bridge an affordability gap in the initial projections (and to help cover increased costs) the city's contribution will most likely double to about $20,000 per unit.

In Baltimore, the city provided a soft third loan of $6,500 per unit. In Washington, DC, the city's Home Purchase Assistance Program (HPAP) will be used to provide zero- or low-interest loans of up to $25,000 for first-time homebuyers with below-median incomes. In addition to these sites, Shelbyville is providing loans specifically to cover downpayments and closing costs.

Finally, seven sites are providing grants to purchasers that will be used to reduce downpayment or closing costs. Such grants are generally only available to lower-income households. As a result of this assistance, actual out-of-pocket expenses for homebuyers at closing can be quite modest. As shown in column 6 of Exhibit 4-3, these amounts have ranged from zero in Shelbyville to $5,800 in Tifton. Buyers' out-of-pocket expenses averaged 4 percent of the sales price plus closing costs across all sites.

As a result of the various subsidies, Nehemiah ownership costs compare favorably with the costs of renting. Exhibit 4-4 shows the influence of the various subsidies on monthly housing costs for homebuyers and compares the costs of owning a Nehemiah unit to the local Section 8 fair market rent.[5] Ownership costs include principal and interest payments on any amortizing loans, monthly costs for taxes[6] and insurance, and an estimate of utility costs. As shown, in all cases except Tifton, the cost of homeownership is lower than—and often significantly below—the FMR for a comparably-sized rental unit. Conversations with project sponsors and focus groups with purchasers confirmed that Nehemiah costs were equal to or less than what most buyers were previously paying in unassisted rentals.

Subsidy Costs of Nehemiah Units

The costs of achieving this high level of affordability are summarized in Exhibit 4-5, which shows the estimated per unit value of all of the subsidies together for each of the 12 active sites. To create this estimate, ongoing subsidies provided through the Nehemiah loan and other deferred and low-interest loans were converted into present values so that they could be

5. The exhibit compares Nehemiah ownership costs with the Section 8 Fair Market Rent for this market area. However, since home values are relatively low in the Nehemiah neighborhood as compared to the city median, it is also possible that the allowable rents approved under the Section 8 Certificate program are below the FMR. In the Certificate component of the Section 8 program units are subject to "rent reasonableness" determinations based on the specific characteristics of the unit and its neighborhood. Rent reasonableness determinations are not used in the Voucher component of the program.

6. Six of the sites provide some form of property tax abatement for homebuyers (Baltimore, Clairton, Woonsocket, Portland, Pittsburgh, and Washington DC).

EXHIBIT 4-4

COMPARISON OF MONTHLY OWNERSHIP COSTS WITH FAIR MARKET RENTS

Site	Unit Size (BRs)	Average Nehemiah Monthly Cost (PITI) + Utilities	Comparable Section 8 Fair Market Rent	Nehemiah Cost as Percent of Fair Market Rent
Baltimore, MD	3 BR	$350	$714	49.0%
Shelbyville, KY	3 BR	235	495	47.5
Clairton, PA	2 BR	362	438	82.7
Gary IN	3 BR	420	673	62.4
Chicago, IL	3 BR	559	834	67.0
Tifton, Ga	3 BR	480	427	112.4
Portland, OR	3 BR	554	646	85 8
Woonsocket, RI	3 BR	770	834	92.3
Tuskegee, AL	3 BR	350	412	85.0
Pittsburgh, PA	3 BR	421	548	76.8
Washington, DC	2 BR	807	830	97.2
Des Moines, IA	3 BR	485	618	78.5

combined with capital subsidies. As shown in the exhibit, the combined amount of all subsidies averages just under $30,000 per unit and consists of four components:

> ***The value of the Nehemiah loan interest subsidy:*** The Nehemiah loan bears no interest, and repayment is deferred until transfer or resale. Consequently, the monthly cost of ownership is lower than it would be if these funds were provided under a conventional first or second mortgage. The value of the Nehemiah interest rate subsidy may be calculated as the present value of the interest savings on the loan (i.e., the

EXHIBIT 4-5

ESTIMATED PER UNIT VALUE OF ALL SUBSIDIES

Site	(1) Present Value of Nehemiah Loan Subsidy[a]	(2) Present Value of BMIR Mortgage Subsidy[b]	(3) Value of Development Capital Subsidy[c]	(4) Forgivable Deferred Loans and Grants (including DPA)	(5) Present Value of All Subsidies Per Unit
Baltimore, MD	$5,993	$5,130	$26,015	$10,250	$47,388
Shelbyville, KY	4,770	289	23,889	3,462	32,410
Clairton, PA	4,910	2,661	6,026	3,959	17,556
Gary, IN	6,421	0	26,812	0	33,233
Chicago, IL	6,421	0	13,206	0	19,627
Tifton, GA	5,993	0	5,914	0	11,907
Portland, OR	6,421	0	11,611	390	18,032
Woonsocket, RI	6,421	11,694	4,968	3,000	26,083
Tuskegee, AL	6,421	0	8,384	0	14,805
Pittsburgh, PA	6,421	0	68,220	22,190	96,831
Washington, DC	6,421	NA	20,774	NA	NA
Des Moines, IA	6,421	2,520	6,509	0	15,450
Average	6,206	$2,013	$17,333	$3,470	$29,062[d]

[a] Calculation is equivalent to that for a sinking fund, s, required to pay off the second mortgage loan, L, in n months, assuming a monthly interest on savings, i, equal to the interest paid on the first mortgage loan In this case, the term is assumed to be 120 months (ten years), $s = L^*[1(1/(1+i)^n)]$ S is the principal sum needed to make interest payments for ten years

[b] Uses mortgage amount and interest rates for typical unit as shown in Exhibit 4-3 Market interest rate assumed to be 7.5 percent, the prevailing level in most sites as of mid-1993. Market interest rate less mortgage interest rate = subsidized mortgage interest rate Subsidy calculated as the net present value of the stream of interest payments not paid (discount rate = market interest minus actual mortgage interest) Period is ten years

[c] Calculations provided in Exhibit 3-5, Chapter 3

[d] Excludes Washington DC where the amount of third mortgage subsidy has not yet been determined

interest that did not have to be paid by the homebuyer while holding the loan).[7] Column 1 of Exhibit 4-5 shows that the present value of the Nehemiah subsidy for the 12 active Nehemiah sites is between $4,770 and $6,421 per unit, depending upon the average Nehemiah loan amounts at each site. This amount represents the value of the public subsidy granted to the homebuyer by the federal government.

Value of BMIR loans: The below-market-interest-rate first mortgages made available to most Nehemiah homebuyers provide an additional subsidy, lowering the monthly cost of interest payments for the first mortgage loan. Column 2 of Exhibit 4-5 provides an estimate of this subsidy for a typical unit in each of the sites.[8] It is important to note that only five sites are credited with offering interest rates substantially below market, even though nine grantees were using state housing finance agency or locally provided loans (which typically enjoy a rate advantage over market loans). This situation results from the rapidly declining rates in the mortgage market during 1993. HFA rates are set with each bond issue, and usually remain constant for the period of time it takes the HFA to use up all bond proceeds. In declining interest rate markets, HFA rates can lag behind market rates, temporarily eliminating the rate advantage usually enjoyed by the HFA MRB programs. Estimates of the value of BMIR loans ranged from $289 (a very small loan in Shelbyville) to $11,694 (in Woonsocket).

Value of capital development subsidies: In all of the sites, additional benefits are received from the capital development subsidies (discussed in Chapter 3), which are defined as the difference between total development cost per unit and the per-unit sales price. These are capital costs absorbed by the sponsor with public assistance. As shown in column 3 of Exhibit 4-5, they average $17,333 per unit.

Value of other grants and forgivable deferred payment loans: In addition to the subsidies listed above, a number of sites provide forgivable third mortgages and/or

7. For purposes of this analysis, the discount rate selected was the ten-year federal funds rate for August 1993, the time of the second site visits, which was approximately 5.6 percent. The federal funds rate reflects the cost to the public of providing the subsidies. (An alternative would be to base the analysis on the opportunity cost (benefit) of Nehemiah funds to the borrowers, using the rate at which they would have to borrow were they to replace Nehemiah with an increased primary loan. However, site-specific discount rates would produce present value of the Nehemiah subsidy that are greater in sites where first mortgage loan costs are higher, and lower in sites that were more successful in assembling lower-cost first mortgage commitments.) The analysis assumes a term of ten years for the Nehemiah loan, at which point the full principal is paid. This term is slightly longer than the seven-year national average, because it is expected that low-income homebuyers with these special financing deals will be less likely to move than the average homeowner.

8. The figures in the exhibit are based upon the typical mortgage amounts shown in Exhibit 4-3 and assume a 30-year amortization period for the mortgage at the interest rate specified The value of the interest rate subsidy is calculated as the net present value of the stream of interest that the homebuyer does *not* pay. The discount rate on that interest savings is equal to the difference between market interest (assumed to be 7.5 percent for all sites as of August 1993) and the actual mortgage interest on the loan The period over which the subsidy is presumed to be made available is ten years, consistent with the Nehemiah loan analysis.

grants for downpayments or closing cost assistance. Forgivable loans are treated as a grant, i.e., the full value is counted. Exhibit 4-5 shows the present value of these additional capital subsidies in Column 4.

Column 5 of Exhibit 4-5 contains the cumulative total of all subsidies per unit at each of the Nehemiah sites. The value of these (mostly public) subsidies ranges from about $12,000 in Tifton to nearly $97,000 in Pittsburgh. The Nehemiah funds constituted more than a third of the total subsidies in six of the sites. In the remaining six sites, the combination of high public infrastructure cost (as in Pittsburgh) and low property values necessitated large capital subsidies, thus reducing the relative importance of the Nehemiah loans. On average, the present value of the Nehemiah interest subsidy constituted approximately 20 percent of the total subsidy value across the sites. The average total subsidy was $29,062 per unit.

Purchaser Perspectives on the Program

As part of the second round of site visits for this study, members of the study team held focus group sessions in each site with Nehemiah purchasers and with groups of other neighborhood residents. Overall, the Nehemiah purchasers expressed a great deal of satisfaction with their Nehemiah units and with the "bargain" that they felt the units represented. As noted above, the cost of ownership for most buyers was less that they were previously paying for rent, and many of them felt that the Nehemiah program offered them a "once-in-a-lifetime" chance to own a home. Few buyers worried about being able to pay the Nehemiah loan back at sale (principally because few could envision moving), and most expected some appreciation of their homes if they stayed long enough.

Beyond this generally positive consensus, the focus groups did reveal some problems or issues at the individual sites. Purchasers at three sites complained of construction or design problems. In Shelbyville, buyers said that there were a number of items that were not done that should have been included in the scope of rehabilitation work. Problems in Chicago included complaints from some purchasers that their prefab units were "cheap-looking," as well as statements that a variety of items were done poorly or left undone entirely. In Portland, construction delays appear to have heightened buyer's stress about the purchase. In addition to citing construction problems, a substantial number of the Portland purchasers expressed dissatisfaction with the size and layout of the units, and were surprised to learn that they were based on "award-winning" designs.

Another potential problem revealed in the focus groups is apparent confusion over the nature of the Nehemiah loan. Homebuyers in two sites (Chicago and Woonsocket) showed lingering confusion about whether Nehemiah was a writedown (as some purchasers thought) or a fully repayable loan. This raises some question about these sponsors' explanation of the program.

By far the most compelling issue, however, was raised in Baltimore—the only site where the program is complete—and concerned the severely deteriorated conditions of the project neighborhood. Roughly two-thirds of the 300 Baltimore homebuyers had moved to the Nehemiah neighborhood from other parts of the city, and many expressed a great deal of concern and fear now that they have had a chance to experience the area first-hand. Sandtown-Winchester is acknowledged to be one of the worst neighborhoods in the city and has significant problems of drugs, crime, and abandoned structures. As a result, some of the purchasers said that they felt like "prisoners" in their homes and many expressed reluctance to let their children play outside.

Many of the Baltimore purchasers felt that their decision to buy a Nehemiah unit was based on the sponsors' promise to turn the neighborhood into a "showcase." Thus, they are actively demanding that the city and the Enterprise Foundation continue to rehabilitate the many vacant and abandoned structures in the neighborhood, in order to reinforce the start made by Nehemiah. These new owners appear willing to play a major role in improving the neighborhood; indeed, they may already have helped improve the responsiveness of the police, as a result of their activism. However, given the size and deterioration of the area, a very large infusion of funds will be required to make a difference. The city appears committed to making this investment, and since late 1989 has made Sandtown-Winchester the focus of an unprecedented demonstration effort designed to simultaneously address and "transform" all of the dysfunctional systems (physical and economic) within the neighborhood.

4.2 Meeting Neighborhood Revitalization Goals

The statute creating the Nehemiah program identifies as one of its purposes "to undertake a concentrated effort to rebuild the depressed areas of the cities of the United States and to create sound and attractive neighborhoods." Such benefits could be stimulated by the physical impact of the construction of new or rehabilitated units, or by the long-term social impacts attributed to increased levels of homeownership (e.g., greater economic stability, improved maintenance, more resident involvement in community affairs).

As described in detail in Chapter 2, few of the Nehemiah projects that received funding in 1989 attempted to replicate the large-scale, urban rebuilding approach of the original New York Nehemiah project. In fact, four of the original 15 projects were not located in urban areas at all. Among the 11 urban sites, many sponsors proposed projects at the minimum size limit (50 units) or requested waivers to complete fewer units. Of the larger projects, only Baltimore and Washington are building one or a few concentrated sites; the others (Chicago and Portland) risk dissipating the impact of the improvements by building on scattered sites in extended neighborhood areas.

Thus it appears that the Nehemiah model—large-scale contiguous construction, utilizing innovative building technologies and achieving sizable economies of scale—is not the development model most suited to many U.S. cities or to the nonprofits that are typically engaged in homeownership development efforts. There are several reasons for this. Few cities have cleared urban parcels the size of the original Nehemiah site; infill construction and rehabilitation appear to be the preferred approach for many deteriorated urban neighborhoods. Furthermore, the logistics and financing associated with large-scale construction appear to be outside the capability of all but the most sophisticated sponsors. Although the Enterprise Foundation was able to produce 300 units over the course of a few years, the majority of the sponsors chose to complete a far smaller number of units and are doing so over a much longer timeframe. Sponsors have broken their projects (and the development risks) into more manageable phases of six to ten units that is more consistent with their rate of sales. Indeed, as of late 1993, many of them had abandoned phasing altogether and are now developing units one at a time as they are able to find buyers.

This is not to say, however, that the Nehemiah units cannot—or will not—have a positive impact on the areas where they are being developed. Even in the rural locations, the units represent a large volume of new housing for relatively small towns.[9] In many of the urban neighborhoods, ***the Nehemiah units in conjunction with other improvement activities have the potential to significantly strengthen these areas.*** (See Section 2.3 for a detailed discussion of this topic.) It is important to point out, however, that the Nehemiah program by itself (even where a relatively large number of units are being produced) appears insufficient to reverse severely deteriorated conditions.

The experience of the Baltimore project is instructive. Within the 72-block Sandtown-Winchester neighborhood, the 300 Nehemiah units represent only a small fraction of the neighborhood's 4,500 housing units. More than twice as many units as were developed under the program (670) are currently abandoned and boarded up, and a large percentage of the remainder are deteriorated or dilapidated. Social conditions in Sandtown are similarly bleak. Once the home of Baltimore's African-American professional class, Sandtown's homeownership rate was only about 18 percent at the time of the Nehemiah grant application. The average neighborhood income is currently about $11,500. Nearly 50 percent of residents are living in poverty. Over 40 percent of households have no earnings, and the unemployment rate is 22.1 percent. Crime and drugs are major problems.

For the 300 new homebuyers in Sandtown, the program has been both a tremendous opportunity and a personal challenge. As noted above, homebuyers expressed extreme concern about the neighborhood, and many of them fear being driven out of the neighborhood by crime and deterioration. The Nehemiah homes appear to have only a fragile foothold in the community and, absent other neighborhood revitalization efforts, their impact would be doubtful. If current plans are carried though, however, they will serve as an anchor for an ambitious revitalization effort that will address a broad range of physical and social problems within the neighborhood. The mayor has already made a commitment to rehabilitating all 670 vacant buildings in Sandtown (at a potential cost of $60 million), and city officials are in the process of packaging these into development projects, including two projects that will produce 300 additional homeownership units.

Both the work of the transformation project and the physical reality of the Nehemiah units appear to have had an important effect on expectations within the Sandtown community.

9. This also results in a challenge for marketing the units since the volume of potential buyers is low.

The introduction of several hundred new working families may also be expected to have a long-term effect on how problems are addressed. As noted earlier, the Nehemiah families appear strongly motivated to work for increased security, sanitation, and housing rehabilitation. These efforts range from formal approaches (complaints to the police) to more informal steps (calling the families of children observed on the streets during school hours), and they appear to have already had some impact. The Nehemiah purchasers have also formed homeowner's associations and are working with other community groups on neighborhood issues.

4.3 Increasing Employment Opportunities

A final objective of the Nehemiah program was to increase employment opportunities for neighborhood residents. Most of these opportunities were to be provided as part of the construction work; however, in a few cases, such as in Clairton, longer-term maintenance jobs might be created. Although some grantees quantified employment goals in their applications (e.g., numbers of jobs to be created and number of jobs for neighborhood residents), creating employment opportunities does not appear to have been a major focus for most grantees. There has also been little attempt on the part of most grantees to document the results. While several grantees said that there had been part-time and/or short-term construction jobs created by the program, only a few could provide numbers or identify specific jobs held by area residents. One of the exceptions is Clairton, where the organization uses its own permanent work crew (three of the six crew members are from Clairton.) Another is Portland, where the grantee has set a goal of 25 percent minority and neighborhood employment and tracks contractor and subcontractor hiring closely to assure that the target is being met. Finally, Baltimore has exceeded its goal of hiring 15 neighborhood residents, having employed at least 25, largely for site preparation work.

Overall, the neighborhood employment goals of the program have not received much attention from sponsors. Most sites attempt to achieve the program's employment goals by giving preference to minority contractors or by requiring contractors to make minority hires. There is little follow-up, however. There may be a number of reasons for the low priority apparently attached to this program objective. One is that the slow pace of the work, plus the recession, have limited the opportunity for significant employment effects. Contractors in a recessionary period may maintain skeleton crews of their best employees who are able to handle the extra Nehemiah work with few or no outside hires. A second reason may lie in the suggestion of some contractors that hiring unskilled residents in the construction process will increase the cost of supervision, training, and quality control. Finally, in those sites where off-site factory built construction is being used (Baltimore, Chicago, and Woonsocket), community hiring is reduced. In Baltimore, for example, the sponsor ran into a conflict between neighborhood employment goals and cost savings achievable through the use of prefabricated housing components. Early in the program, a group of residents formally objected to the construction method because it reduced the opportunity for neighborhood jobs. Here, the sponsor and the city made an explicit choice favoring the housing purposes of the program at the expense of potential job training or employment benefits.

4.4 Conclusion

Based on the experience of the 15 sites that received Nehemiah grants in 1989, the program appears to be meeting its objective of providing affordable homeownership opportunities. Important caveats, however, are the overall reduction in the number of units to be completed (1,186, down from 1,305), the fact that the units are being developed much more slowly than anticipated, and the potential for additional sponsors to fail or truncate their programs. Those units that have been produced so far are very affordable, with monthly housing costs that are favorable to renting; most of the buyers have incomes under 50 percent of median.

The affordability of the units is attributable primarily to large capital subsidies that allow the sponsors to sell the units for much less than the costs of production. The Nehemiah loan subsidy provides the next largest source of subsidy, followed by grants, additional deferred payment loans, and low-interest first mortgages from public sources. On average, these subsidies total $29,062 per unit.

The value of these subsidies accrues both to the homebuyers (in terms of affordable housing and potential future appreciation) and also to the neighborhoods where the units are built. Assuming sufficient concentration and scale, the Nehemiah program can have a visual impact on distressed urban neighborhoods, can help to change attitudes, and may introduce a new group of residents who will lend their energies to neighborhood improvement efforts. However, in no case does the Nehemiah project alone appear sufficient to turn a deteriorated area around. Homebuyers, while typically optimistic about future values, often predicated future profits (and the ability to repay the Nehemiah loan) on continued public investment and improvements in the project area.

The role of the Nehemiah program in creating job opportunities is less certain, since few of the sponsors have tracked construction employment by contractors and subcontractors. Although some sponsors claim substantial short-term employment for neighborhood residents, this aspect of the program has received relatively low priority at most sites.

Chapter Five
CONCLUSION AND RECOMMENDATIONS

Although there will be no new Nehemiah grants beyond those awarded in 1991, the experiences of the current Nehemiah participants and the preliminary program results analyzed in this study provide important insights for the design and implementation of future homeownership programs and affordable housing production efforts. During site visits, the Nehemiah sponsors were asked to describe any administrative problems they encountered in using the Nehemiah grants, as well as to comment on key features of the program design that made their projects more difficult or expensive to implement. Sponsors were also asked to provide recommendations for program improvements. This chapter examines the key administrative and design issues raised by the sponsors, and offers several policy recommendations for enhancing program efficiency, streamlining project operations, and supporting similar programs under HOPE III and HOME.

5.1 Program Cost and Efficiency

Many Nehemiah projects have already demonstrated they can provide affordable homeownership opportunities to low-income homebuyers at reasonable costs. One of the problems, however, is that the cost to produce the units keeps rising as the projects take longer to complete, and as a result, more resources have to be contributed to the projects from local sources to complete the original (or revised) plans. As indicated in Chapter 4, the total average subsidy per unit is now estimated to exceed $29,000, of which the Nehemiah interest subsidy is only 21 percent ($6,206).[1] Part of the program efficiency question concerns the capacity of the nonprofit sponsors to do the job (already discussed in Chapter 2). A second issue is whether sponsors are spending more than they need to on the Nehemiah units, or providing more subsidy per unit than might apply in other affordable housing programs. A third issue has to do with

1. This figure assumes that the Nehemiah loan is fully repaid after ten years. This assumption may be questioned on the basis of reduced sales of units within that time period (thereby lengthening the time during which the interest subsidy is available); or on the basis of sales proceeds that are insufficient to pay back the second mortgage, in which case the loan becomes a partial or complete grant. In both cases the Nehemiah subsidy could be higher than the $6,206 we have estimated here. On the other hand, for households selling before ten years and paying off their second mortgage, the interest subsidy will be lower than this amount.

whether homebuyers themselves are paying too much—or getting too great a bargain—in terms of their actual housing cost-to-income ratios.

Amount of the Subsidy

The question of whether the total per-unit subsidy cost for the Nehemiah units is reasonable or excessive is difficult because the legislation only specifies the maximum size of the grant amount ($15,000) and places a general limitation on other federal funds that can be used in conjunction with the program (i.e., none except CDBG, and FHA mortgage insurance). The use of other federal funds (such as HOME) is permissible only with a waiver from the Office of Housing. In Chapter 4, we estimated that the average per-unit subsidy for units produced to date is $29,062, including development subsidies, homeowner grants, and interest subsidies associated with the Nehemiah loan and any other BMIR mortgages. In order to gauge whether this level of subsidy is appropriate, it seems useful to compare it with the amount of subsidy afforded to nonprofit sponsors or program beneficiaries under other affordable housing programs. Subsidy estimates from four recent HUD studies are compared with the Nehemiah estimates in Exhibit 5-1, and include:

- The 1990 study of the Urban Homesteading Demonstration by Speedwell Inc.;[2]
- The 1992 Abt Associates study of housing costs and funding for 15 nonprofit multifamily rental projects,[3]
- The 1991 evaluation of the Low Income Housing Tax Credit Program by ICF Incorporated;[4] and
- The 1990 evaluation of the Freestanding Housing Voucher Demonstration by Abt Associates.[5]

---

2. Speedwell, Inc., *Urban Homesteading Program Evaluation*, September 30, 1991.

3 Scott Hebert, Kathleen Heintz, Chris Barron, Nancy Kay and James E. Wallace, *Nonprofit Housing: Costs and Funding* (Abt Associates Inc., Cambridge, MA), Exhibit 4.4 "Relative Importance of Subsidies and Contributions," p 4-22. Study focused on 15 projects sponsored by nonprofits in Boston, Washington, Chicago, Kansas City, and San Francisco.

4. ICF Incorporated, *Evaluation of the Low Income Housing Tax Credit - Final Report* (Fairfax, VA; 1991), Table 6-3, p 6-10.

5. Abt Associates Inc , *Final Comprehensive Report of the Freestanding Housing Voucher Demonstration,* Vol. 1 (Cambridge, MA; 1990), Table 7.6, p. 149.

Exhibit 5-1

COMPARISON OF SUBSIDY COSTS PER UNIT FOR DIFFERENT PROGRAMS (1991 Dollars)

Evaluation/Study	Tenure Type	Number of Projects/Units in Study	Total Development Cost per Unit	Total Subsidy Cost per Unit[a]	Capital Subsidy	Operating Subsidies	Range of Subsidy Estimates
Nehemiah[b]	ownership	12/1,186	$88,755	$29,062	$17,247	$11,815	$11,907-$96,831
Urban Homesteading Demonstration[c]	ownership	36/633	$53,272	$30,414	$26,886	$3,528	not available
Nonprofit Housing: Costs and Funding[d]	rental	15/891	$104,520	not computed	$40,805	not computed	$13,369-$134,928
Low Income Housing Tax Credit[e]	rental	100/4,703	$51,187	$45,113	$16,062	$29,051	$15,174-$63,075
Section 8 Certificates and Vouchers[f]	rental		not applicable	$37,741	not applicable	$37,741	

[a] All study numbers adjusted to common base year of 1991 using Consumer Price Index, operating subsidies discounted over ten years at 6 25%

[b] Subsidy estimates (derived in Chapter 4 above) are based on a ten-year period, and include the present value of (1) Nehemiah loan interest subsidy, (2) BMIR mortgage subsidy, (3) development capital subsidy, and (4) other forgivable deferred loans and grants

[c] *Urban Homesteading Program Evaluation*, Speedwell, Inc (Washington, DC, September 1991), p 94 ff Total development costs = acquisition, rehabilitation, and administration, subsidies = disposition losses, interest subsidies, and local program administration, all reported figures adjusted to 1991 dollars and interest subsidies discounted at 6 25% federal funds rate over ten years

[d] Total development subsidies and contributions per unit for 12 rental and three cooperative projects in Boston, Washington, Chicago, Kansas City, and San Francisco, Abt Associates, *Nonprofit Housing Costs and Funding*, Table 4.4, p 4-22 Study estimate does not include any ongoing rental subsidies, nor the present value of foregone tax revenues from the use of low-income housing tax credits, therefore, total subsidy (operating plus development_) cannot be computed

[e] Present discounted value of government subsidies per unit for 100 projects with developer information adjusted to 1991 figures based on Consumer Price Index, ICF Incorporated, *Evaluation of the Low Income Housing Tax Credit, Final Report*, Exhibit 6-3, p 6-10

[f] Present discounted value of average Section 8 certificate/voucher payments beginning in 1991 ($360/month or $4,320/year) for a period of ten years at 6 25% federal funds rate, and with an inflation assumption of 4 5% Current (1993) figures are estimated at approximately $400/month, which is roughly the difference between the average rental amount of $6550 less tenants' out-of-pocket contribution of $150

Even though the numbers in the table have been adjusted to a common 1991 base using the consumer price index (CPI), the comparisons offered in Exhibit 5-1 are not meant to be conclusive because the projects and programs evaluated differ so much, and because the studies use somewhat different methods for estimating the subsidies. Despite these caveats, the exhibit does suggest that the $29,062 average per-unit subsidy under the Nehemiah program is lower than the per-unit subsidy estimates of three of the other programs, and about the same as Urban Homesteading, which was cancelled by the National Affordable Housing Act.[6] Per-unit subsidy estimates vary from $29,062 for Nehemiah to $45,113 under the Low Income Housing Tax Credit Program. The ranges of per-unit subsidy estimates (last column) are quite large across the localities and projects studied. This underscores the need to view these figures as suggestive only.

The 1991 evaluation of the Urban Homesteading Program provides a particularly useful point of comparison because the beneficiaries (low income homeowners[7]), tenure (ownership) and locations (central city) were very similar to Nehemiah. A major difference is that the Homesteading program involved the acquisition and rehabilitation of existing homes, unlike Nehemiah where 88 percent of the units will be newly constructed. In the Urban Homesteading program, ten-year subsidy costs to federal and local governments are estimated at $30,414 based on a ten-year period for interest subsidies and a discount rate of 6.25% (originally $26,900 in 1989). This figure includes the gift of the property; interest subsidies on rehab loans (primarily Section 312 loans);[8] and administrative costs covering such items as work write-ups, homesteader selection, contractor selection and monitoring, and loan packaging. The after-rehab value of homestead units averaged $44,752 (1991 dollars). Summing the average acquisition price ($19,723), the average rehab costs ($23,330), and per-unit administrative costs ($10,219) implies a per-unit cost to produce of about $53,272, well below the average Nehemiah cost of

6. If the present value of the interest rate subsidies for Nehemiah is calculated over 15 years instead of ten, the total subsidy increases to approximately $35,000.

7. The median income of homesteaders surveyed in 1990 was $17,500; this is just under 50 percent of the 1989 national median income of $37,000.

8. Calculated as the difference between actual interest charged and the government's borrowing costs (5.5 percent.)

$88,755. Note also that the Nehemiah costs do not include any administrative or technical support costs on the part of local governments that worked with nonprofit sponsors on the projects.

In the study of nonprofit housing developments, the data are based on an illustrative group of 15 projects located in five metropolitan areas. These projects included 12 rental developments and three cooperatives. The projects were divided fairly equally between new construction and rehabilitation. Low Income Housing Tax Credits were used in 12 of the 15 projects. The methods used to collect cost data on the nonprofit projects were similar to those used in this study—i.e., an effort was made to collect the full costs of development including donated land, infrastructure, waived fees, and other donations. Beyond this, a value was also given to staff time used to complete the project and to payments that would otherwise have been made on BMIR construction loans. The average per-unit development subsidy was $40,850. This figure includes subsidies provided during the development period and the value of longterm BMIR financing (discounted at 10 percent over the full term of the loan). The figure does not include the value of tax credits or the value of any rental assistance to tenants. Therefore, a total subsidy estimate (capital plus operating) was not developed for this study.

In the Low Income Housing Tax Credit study, the subsidy estimate was based on the present value of a 15-year stream of subsidies—including the low income housing tax credit, grant funds (if any) provided to the project, the value of subsidized loans (e.g., FmHA Section 515) and rental subsidies—using a discount rate of 8.62 percent. Today's lower interest rates would suggest a similar decrease in the discount rate with a corresponding increase in the present value (i.e., higher than $42,821). It should be noted that the new construction group in this study tended to be dominated by FmHA projects, with below-average development costs. Projects in California and Massachusetts, two high-cost states, were not included in the study. Also, while the study did attempt to capture full development costs, the nature of the data collection precluded in-depth investigation of donations and/or contributed infrastructure.

As a final comparison, the bottom row of Exhibit 5-1 shows the discounted present value of the average Section 8 certificate or voucher ($300 per month in 1988 at the time of recertification), projected over a ten-year period using a discount rate of 6.25 percent. The total of $37,731 per unit is less than the subsidies estimated in the nonprofit and LIHTC studies, but more than $8,600 higher than Nehemiah or Urban Homesteading.

The point of these comparison is to suggest that, compared with other federal housing subsidy programs, Nehemiah appears to be reasonable in terms of its per-unit subsidy costs. This favorable comparison is enhanced to the extent that many of those subsidies (and contributions) are paid out of state and local funds and/or private grants, not the federal treasury. The cost to the federal treasury is only the foregone interest on the Nehemiah second mortgage, estimated at \$6,206. At the same time, if all 1,186 Nehemiah homeowners were not to pay back the second mortgage, the federal subsidy cost per unit would increase to \$20,812 (\$14,606 grant plus \$6,206 interest subsidy), and the total subsidy cost per unit would increase to \$43,616; see Exhibit 5-2. Despite the reasonableness of overall program costs, there remains some concern in particular sites that development costs may be higher than necessary or appropriate, and warrant further review to assure that program benefits continue to reach the intended beneficiaries.

Housing Cost-to-Income Ratios

Exhibit 5-3 provides an additional perspective on the efficiency of the Nehemiah program. For each site, the exhibit shows the distribution of monthly homebuyer payments for principle, interest, taxes, and insurance (PITI) as a percentage of monthly income. The ratio of total housing costs—PITI plus utilities—to income is also shown.

Housing cost-to-income ratios provide a measure of affordability, and are used to set benefits in some programs. Under Section 8, subsidies are provided such that renters pay no more than 30 percent of their adjusted incomes toward housing costs. In the new HOPE 3 homeownership program, purchasers' monthly payments (PITI) must fall between 20 and 30 percent of income. Underwriting ratios of 28 to 32 percent are typical for private market loans, with slightly higher ratios (between 33 and 38 percent) possible if the applicant has no other debt.

The ratios shown in Exhibit 5-3 are typically below those implied by these standard rules of thumb. Although site averages fall between 20 and 30 percent in all sites except Tuskegee and Shelbyville, the distributions reveal that 44 percent of buyers for whom data are available ***are paying less than 20 percent of income towards PITI.*** Indeed, 5 percent are paying under 14 percent, with several making payments of only 5 to 10 percent of their incomes.

EXHIBIT 5-2

ALTERNATIVE COSTS TO THE FEDERAL GOVERNMENT

		Nehemiah Projected Sales		Scenario A: Nehemiah Treated as Grant Program		Scenario B: Nehemiah Loans Repaid in Full (Loan Interest Subsidy Cost)	
Site	Units	Price/Unit	Total Sales	Per Unit	Total Grant	Per Unit	Total Interest
Baltimore MD	300	$62,500	$18,750,000	$14,000	$4,200,000	$5,993	$1,797,900
Shelbyville, KY	18	$29,667	$534,006	$12,944	$232,992	$4,770	$85,860
Clairton, PA	50	$35,905	$1,795,250	$13,394	$669,700	$4,910	$245,500
Gary, IN	41	$45,000	$1,845,000	$15,000	$615,000	$6,421	$263,261
Chicago, IL	169	$73,040	$12,343,760	$15,000	$2,535,000	$6,421	$1,085,149
Tifton, GA	50	$55,000	$2,750,000	$14,000	$700,000	$5,993	$299,650
Portland, OR	250	$75,720	$18,930,000	$15,000	$3,750,000	$6,421	$1,605,250
Woonsocket, RI	50	$104,000	$5,200,000	$15,000	$750,000	$6,421	$321,050
Tuskegee, AL	52	$46,000	$2,392,000	$15,000	$780,000	$6,421	$333,892
Pittsburgh, PA	24	$77,000	$1,848,000	$15,000	$360,000	$6,421	$154,104
Washington, DC	132	$114,544	$15,119,808	$15,000	$1,980,000	$6,421	$847,572
Des Moines, IA	50	$65,000	$3,250,000	$15,000	$750,000	$6,421	$321,050
Total	**1,186**	**$71,422**	**$84,757,824**	**$14,606**	**$17,322,692**	**$6,206**	**$7,360,316**
Percent of total funds			**100.0%**		**20.4%**		**8.7%**

Exhibit 5-3

HOUSING COST-TO-INCOME RATIOS

PITI/ Income	Baltimore[a] n=300	Shelby-ville n=12	Clairton n=24	Gary n=2	Chicago[b] n=42	Tifton n=6	Woon-socket n=6	Portland n=25	Tuskegee n=2	Total n=419
5-14%	0.02	0.67	0.17	NA		0.20		0.04	1.00	0.05
15-19%	0.51	0.17	0.17		0.35	0.60	0.17	0.20		0.44
20-24%	0.41	0.08	0.26		0.19		0.33	0.24		0.36
25-29%	0.06	0.08	0.22		0.31	0.20	0.33	0.20		0.10
30-34%	0.01		0.13		0.12		0.17	0.28		0.04
35-39%			0.04					0.04		0.01
40-44%										
45+					0.04					0.00
Total	100%	100%	100%	NA	100%	100%	100%	100%	100%	100%
Avg PITI/Income	0.20	0.13	0.22	NA	0.24	0.20	0.24	0.25	0.11	0.20
Avg Housing Cost/Income	NA	0.21	0.32	NA	0.25	0.26	0.26	0.28	0.15	NA
Avg Buyer Income as % of Median	42	34	43	61	52	82	77	56	127	44
Avg Per Unit Subsidy[c]	$47,338	$32,410	$17,556	$33,233	$19,627	$11,907	$26,083	$18,032	$14,805	$29,062

[a] Baltimore figures based on numbers of buyers receiving different loan rates and sponsor records of homebuyer incomes.
[b] Excludes five lease purchase buyers with extremely low incomes.
[c] Average per-unit subsidy for 12 active program sites.

The data suggest several conclusions. First, the program not only serves very low-income purchasers, but also provides some buyers with housing at monthly costs that are lower than they might be required to pay under alternative federal housing programs. While some of the lowest ratios can be attributed to households with relatively high incomes, this is not always the case. In some sites there appears to be little pattern, suggesting that each sale may be tailored to the individual buyer, and that subsidy levels are based on factors not captured in cost-to-income ratios. The high degree of affordability may also mean that some buyers are "over-subsidized," receiving a writedown beyond that needed to place them in the unit; however, the slow sales experienced in most sites suggests that very-low-income buyers may require a substantial subsidy to overcome psychological or underwriting barriers to homeownership, or to induce them to purchase units in the Nehemiah neighborhoods.

5.2 Administrative Issues

Another part of the program efficiency question focuses on program administration. Administrative strategies for controlling program costs tend to center around three issues identified by program sponsors: (1) the locus of program oversight, (2) the provision of technical assistance, and (3) general administrative burden. It should be acknowledged at the outset that many of the administrative difficulties encountered in the early stages had to do with ***program features mandated by the legislation,*** and not by administrative choices of the Department of Housing and Urban Development. In addition, when the Nehemiah program was canceled by passage of the National Affordable Housing Act (1990), an expanded administrative structure to support program operations was felt to be unnecessary and wasteful.

Locus of Program Oversight

The Nehemiah program has always been administered from HUD's central office, where staff from the Single Family Development Division are responsible for answering grantee questions, clarifying program guidelines, reviewing waiver requests, monitoring program performance, and approving the drawdown of Nehemiah funds. After the program became operational, HUD field offices were assigned responsibility for environmental reviews, progress monitoring, and quarterly inspections of the construction sites. In general, however, field office staff have played only a very minor role in the program, with all approvals and guidance coming from the central office.

Despite the fact that the Nehemiah program is quite small (so that centralized program administration is probably the most efficient approach), a number of sponsors felt that the field offices should have been more involved in the program. Such involvement, many thought, could have headed off two major problems that they felt resulted from central office administration of the program: (1) long delays in initial approvals and processing, and (2) lack of feedback or guidance on grantee questions and program issues at the beginning of the program.

Under the new HOME and HOPE III homeownership programs, much of the program oversight and monitoring responsibilities will pass to HUD field offices, while primary technical reviews remain with local governments and/or housing authorities. The problems and delays in grant processing and project approvals encountered by the first-round Nehemiah projects should also be reduced by the increased local initiatives permitted in HOPE III and HOME programs. The greater flexibility permitted means that homeownership projects can reflect the needs and resources of the local community more fully, rather than having to be forced into a nationally legislated format.

Program Guidance and Technical Assistance

In addition to delays on routine matters, a substantial number of the first-round grantees complained of slow decisions from HUD regarding the interpretation of key program rules. The lack of clear guidance to grantees may be responsible for several instances in which grantees proceeded with their programs in contravention of program requirements. For example, two sites (Chicago and Woonsocket) started construction shortly after they received the signed grant agreement from HUD, but were then required to stop because they had violated the 25 percent pre-sale rule—a requirement that they felt HUD had not communicated clearly. Another key feature of the program (full repayment of the Nehemiah loan) seems to have been misinterpreted by some grantees and even miscommunicated to some buyers. While both of these items are statutory requirements (see below) and should have been understood, the program still had many grey areas in which grantees felt that they were not getting adequate guidance. As late as November 1991, grantees were still struggling with the pre-sale requirement (which was ultimately made more flexible by the Fowler Amendment), the definition of "hardship" conditions under which HUD might permit a sale without repayment, and the numbers of model homes that could be built.

Many of the grantees noted that the central office showed a major improvement in responsiveness after the first two years, becoming much more helpful and responsive to their concerns. Even so, many felt that HUD could have started the program more quickly and could have avoided some major problems by offering clear training and information on program guidelines at the start.[9] Under the HOPE III and HOME programs, this type of concern may seem to be less relevant because of the greater degree of local control and the much greater technical assistance and program support being provided up-front to the localities and community housing development organizations (CHDOs) who will sponsor these projects. However, HUD must still be aware of and respond to local needs during the early period of these programs.

"Excessive" Program Constraints

A third area of administrative concern centered on the number of requirements and approvals associated with the program. There was a general feeling that the Nehemiah program had too many requirements, given the small size of the grants, and the much larger commitments of public and private resources at the local level. Several sponsors referred to the program as a case of the "tail wagging the dog," given that the Nehemiah grants account for only a small portion of the value of most projects (grants are roughly 16 percent of total development cost). Sponsors complained both of basic program requirements (which they found too confining) and of rules and procedures that they found simply wasteful and unnecessary. Examples of the latter included environmental review procedures (time- consuming and duplicate local government reviews in many sites) and competitive bidding requirements (cumbersome and expensive). These requirements, however, will not go away under the new programs, because federal funds are still involved and their use requires these types of review. Moreover, it is clear that many of the inexperienced sponsors were unaware of the time and costs typically involved in the

9. It is noted that as of January 1994, first-round projects have drawn down 419 vouchers out of 1,186 approved units (35.3%), second-round projects have submitted vouchers for 110 out of 1,039 approved units (10.4%); and third-round projects have submitted vouchers for only 19 out of 1,308 units (1.5%). Excluding the Baltimore project, the first- and second-round sponsors are nearly even in their rate of production and sales, despite being a year apart in starting their programs Source: HUD Office of Housing, internal memo, February 1, 1994.

permitting process for real estate development. In these cases, the impacts of such constraints would have been lessened if sponsors had taken steps to deal with them beforehand, or if more experienced sponsors had been chosen by HUD.

5.3 Program Design Issues

Given the successful implementation of the original Nehemiah program in New York City, the legislative intent underlying the federal program was to facilitate large-scale development, which would help reduce costs and make the units more affordable through the use of modern construction technology. Unfortunately, the New York model was not easily replicated in other locations due to an absence of large parcels of land, absence of low-cost construction financing, absence of nonprofit sponsors with deep pockets and extensive real estate development experience, or other project components integral to the New York model. In addition, other provisions of the legislation (and subsequent implementing regulations) tended to undermine the original intent, and to constrain the development process by making the units harder to sell. Nehemiah sponsors were surprisingly consistent in their assessment of three key program features that they felt created such problems. Sponsors thought that HUD (and the Congress) should (1) lift the downpayment requirements; (2) make the Nehemiah loan forgivable over time; and (3) eliminate pre-sale requirements. These and other design issues are discussed below with respect to the ways in which project operations could be streamlined for similar homeownership programs in the future.

Downpayment Requirements

In order to encourage homebuyer savings behavior, the Nehemiah program includes a statutory requirement that purchasers provide a 10 percent downpayment. In addition, the Nehemiah regulations preclude local governments from assisting a family in making the downpayment, unless HUD approves a waiver. However, the statute also provides that the 10 percent requirement can be overridden in cases where a state or local government first mortgage allows for a lower percentage. Also, to further ease the potential burden, the final program rule permits all of the purchasers' cash contributions (especially those for settlement costs) to be included in the 10 percent.

The vast majority of first-round sites felt that the 10 percent requirement was too high and presented a serious barrier to homeownership for lower-income households. As described in Chapter 3, the majority of sites sought state housing finance agency first mortgage financing, citing the typically lower downpayment requirements as one of the principal reasons for using this financing source. In addition, a total of seven of the 12 active sites provide grants to cover a portion of the downpayment and closing costs, and an additional site will provide some loan funds for this use. As described in Chapter 4, actual homebuyer cash paid averaged about 4 percent of sales prices. Cash paid ranged from zero in Shelbyville up to 10 percent in Tifton and 7 percent in Chicago. In all other sites, buyer cash outlays were 5 percent of the sales price or lower.

Despite lowered overall cash requirements, some sites are still having difficulty with the downpayment provisions. For example, Gary is in the process of trying to arrange for some form of grant assistance for buyers. In other sites, getting the appropriate approval from HUD was the problem—such as in Clairton, where the first mortgage is technically a zero downpayment rehab loan and the sponsor felt that no waiver should be required. Finally, there was some early confusion on the part of grantees as to whether the 10 percent requirement applied to the total sales price or to the price after deducting the Nehemiah loan amount (HUD has since confirmed that it is the former). Most sponsors felt strongly that any downpayment requirement should have been at the discretion of the local sponsor, who could gear downpayment amounts to local buyer needs and available financial resources.

Loan Forgiveness and Assumption

Since the inception of the Nehemiah program, there have been arguments that the Nehemiah loan should be forgivable after some period of time or that the loan should be assumable by a subsequent low-income buyer. Arguments for forgiveness and/or assumability were made in comments on the proposed rule (November 8, 1988), but were rejected by HUD based on statutory requirements (see Final Rule of May 22, 1989). The Final Rule does, however, provide for HUD approval of transfer without repayment in cases of hardship (i.e., the proceeds are insufficient to repay the loan), and implicitly provides for assumption in this case.

Despite this language, some of the Nehemiah grantees continued to mistake the nature of the Nehemiah grant, believing that the loan was forgivable. One of the 1989 sites (Tuskegee) began its program under the impression that the Nehemiah loan would be forgiven after 30 years, and it advised buyers accordingly. Even where the terms of the Nehemiah loan were better understood, many sites appeared to rely heavily on the hardship provision, giving little attention to the fact that property values—even over the long term—might not be high enough to satisfy the Nehemiah obligation.

Currently, the majority of active sites still believe that the Nehemiah mortgage should be forgiven over time. They believe that easing the repayment provisions would make the program easier to explain to buyers, alleviate buyer concerns about future appreciation (and about leaving the property to a child), and make marketing easier. While repayment of Nehemiah loans is still required, a 1992 amendment to the law now allows HUD to accept partial payments and cancel the loan in cases where proceeds from a sale are insufficient to make full repayment. Under the amendment, any proceeds over the amount needed to repay the first mortgage plus the seller's downpayment will be shared between HUD and the seller until the Nehemiah loan is fully paid. The provision is intended give owners an incentive to maintain the property in markets with insufficient appreciation for full repayment.

Pre-sale Requirement

The Nehemiah statute prohibited a sponsor from beginning construction (except for a limited number of model homes) until at least 25 percent of its units had been pre-sold and the required downpayments had been collected. Despite the relatively clear language of the statute and the final rule, two sponsors (Woonsocket and Chicago) proceeded with construction without meeting the pre-sale requirement; the result was that their programs were suspended and subsequently greatly delayed while the issue was resolved.

Most of the sponsors found the pre-sale rule to be onerous and wanted to see it eliminated. A specific difficulty mentioned was the need to collect full buyer downpayments (as opposed to a deposit) well in advance of closing. To get around the pre-sale requirement, a number of sites advocated an interpretation of the model homes provision whereby the model designation would "roll over" to additional units as the display homes were sold.[10] Ultimately, however, the pre-sale requirement was eased somewhat by the Fowler Amendment (October 28, 1991). Under the amendment, sponsors could apply the 25 percent rule to separate phases of 16 or more units, as instead of the entire project.

A 25 percent pre-sale requirement with full downpayment for each phase of development is restrictive but not unusual in residential real estate. In Portland, the six-bank consortium that is providing construction financing requires that there be 14 pre-approved buyers (ready to close) for every ten units under construction. This provision helps to assure that the consortium will not wind up holding vacant property in "high risk" neighborhoods if one or two sales don't go through. The effect of the provision, however, is the same as that of the 25 percent pre-sale rule: the development program is slowed down considerably while qualified homebuyers are found and mortgages underwritten. Several sponsors noted how difficult it is to sell a dwelling unit that cannot be inspected and experienced first-hand by prospective homebuyers. ***Most felt that model homes have to be built and partially funded by the project in order to stimulate sales.***

Other Program Design Issues

While downpayments, forgivability, and pre-sales were the design features most frequently mentioned as problems, a variety of other impediments and concerns were noted by the sponsors. For example, a large number of sites thought that the Nehemiah funds should be made available to the sponsors ***during construction*** in order to reduce financing needs. In addition, a number of sites expressed concern about the lack of explicit provisions or instructions for buyers to pay off a Nehemiah loan (for example, after the first mortgage has been paid) except at sale.[11] Apparently, some buyers hoped to leave their homes to children free and

10. The model homes provision allowed sponsors to build up to 5 percent of their units as models without regard to pre-sales. In guidance provided to the sites in March 1992, HUD informed grantees that the roll-over of models was not allowed.

11. HUD's Office of Housing notes that the program does not constrain Nehemiah homebuyers from paying off their second mortgages prior to transfer or sale (for example, by refinancing the first mortgage), and that any homebuyer may call HUD to make such an arrangement.

clear, and the absence of such a provision for paying off the loan may have discouraged them from participating.

At least one site (Tuskegee) was concerned about the shallow nature of the Nehemiah subsidy, suggesting that HUD would need to provide additional funds for writedowns in order to make the program affordable to lower-income buyers. By contrast, in Chicago, the sponsor wanted to eliminate income restrictions in order to be able to attract (or retain) middle-class as well as lower-income families in the neighborhood. They felt that the second mortgage subsidy mechanism should be tailored to the financial capabilities of the specific homebuyer so that anyone could apply, but the amount of subsidy (interest forgiveness) should decrease with increasing income.

Implications for New Homeownership Programs

For current Nehemiah sponsors, the problems created by the 25 percent pre-sale requirement and the non-forgivability of the second mortgage have already been substantially mitigated by the legislative amendments described above. In addition, most sites have been able to deal with downpayment requirements by offering first mortgages through state or local finance agencies with more lenient provisions. Current and future low-income homeownership projects funded with HOPE III or HOME monies have a great deal more flexibility in adapting their financing mechanisms to local conditions and to the needs of prospective sponsors and homebuyers. In addition, many of the financial constraints Nehemiah sponsors experienced, by not having sufficient funds for pre-development work, have been reduced under HOPE and HOME by the availability of planning grants and pre-development financing for CHDOs. ***The important lesson from Nehemiah is that program design and financial constraints have to be anticipated by sponsors and dealt with effectively prior to initiating the development process.*** Once the project is undertaken, it requires much more time and effort to find solutions, thereby increasing costs and/or reducing affordability. The important lesson for HUD is that many sponsors will need training and technical assistance to help them anticipate these kinds of constraints before the implement their projects.

5.4 Grantee Training and Technical Assistance Needs

Although no training or technical assistance was offered to the Nehemiah grantees, two-thirds of the original sponsors said that training would have been helpful to them in setting up their projects and useful in heading off many of the problems they eventually encountered. As described above, some grantees appeared to misunderstand key Nehemiah rules. Given this, better communications from HUD, including written communications regarding program requirements (and possibly an early grantee conference) would probably have been a cost-effective addition to the program.[12] For many grantees, the start-up process took much longer than necessary, and in several instances caused a loss of momentum in marketing and public relations.

Grantees also identified a range of other areas where they would have liked some type of technical assistance. These included program start-up and site acquisition, construction management, marketing techniques, program design, document reviews, financing, and local codes. Aguadilla and Highland Park (two of the sites that dropped out of the program) wanted technical assistance in the form of a facilitator to help negotiations between the nonprofit and the city political structure. For non-programmatic guidance, grantees were urged to seek help from local sources, including city or county governments, lenders, HUD field offices, and other Nehemiah partners. This approach seems reasonable, given the diversity of the sites in terms of sponsor experience and the local conditions in which they worked.

Under the new HOME and HOPE III homeownership programs, local governments, housing authorities and nonprofit sponsors have both more discretion with respect to program design, and more responsibility regarding management oversight and the provision of technical assistance. HUD has already made substantial efforts to provide technical assistance to grantees and prospective sponsors, to assure an understanding of program requirements, to identify program design options, and to iron out difficulties before projects are undertaken. To the extent that nonprofit sponsors are active participants in the design of local programs, their understanding of and ability to implement projects will be enhanced. The best example for this

12 Grantees organized their own conference, which was held in Chicago on November 4 and 5, 1991. Of the 50 grantees who were awarded grants over the period 1989, 1990 and 1991, 30 were represented at the conference. HUD's attendance, and subsequent issuance of Grantee Letters to clarify regulations, marked a major turning point in helping grantees get their projects off the ground.

type of pro-active role among the first-round Nehemiah grantees is afforded by the Enterprise Foundation in Baltimore. Their professional expertise, commitment of resources, and strong working relationship with the city at the front end of the project were essential to its successful implementation.

5.5 Conclusion

With respect to its primary goal of creating affordable homeownership opportunities, the Nehemiah program must be tentatively regarded as a success, based on an evaluation of the 12 active first-round projects. This judgment is tentative because only one-third of the total number of units planned have been produced to date. Those units that have been built, however, are affordable by a broad spectrum of low- and moderate-income families; minimum incomes are usually below 50 percent of the local area median income. This is made possible by: (1) the Nehemiah no-interest second mortgage; (2) substantial contributions, both cash and in-kind, by local public and private donors; and (3) committed nonprofit sponsors determined to adapt their projects to local circumstances and requirements.

Compared with other affordable housing programs, Nehemiah seems to be relatively efficient. The present value of all federal and local subsidies (plus contributions) is estimated to be $29,062 per unit, which is about the same as the estimated per unit subsidy for the Urban Homesteading program (rehabilitation), but substantially below the estimated per-unit subsidies for nonprofit rental housing, low income housing tax credits (new construction), and Section 8 certificates and vouchers (discounted over ten years). At the same time, however, ***44 percent of all homebuyers to date are paying less than 20 percent of their income toward principal, interest, taxes and insurance.*** This finding may reflect the "bargains" that are necessary to attract buyers to these neighborhoods, or the relative difficulty of finding qualified buyers.

Despite this positive outcome, most grantees have experienced considerable difficulty and frustration with the Nehemiah program—either as a result of administrative requirements or as a result of design features they found unworkable in practice. The most serious early problems tended to involve the 25 percent pre-sale provision and the 10 percent downpayment requirement, both of which were mandated by the legislation. In the former case, the Fowler Amendment reduced the number of pre-sales required at any one time by allowing sponsors to meet the requirement in phases. In the case of the downpayment requirement, most sponsors have been able to secure first-mortgage financing from state housing finance agency programs with more lenient downpayment requirements—frequently below 5 percent. In addition, future problems for homeowners whose properties do not appreciate may be mitigated by the resale amendment, which provides for sharing sales proceeds between HUD and the seller and forgiving part of the Nehemiah funds, if necessary.

Several sponsors stated that the administrative burdens and constraints stemming from the legislation and program regulations were disproportionate to the amount of Nehemiah money provided. Most sponsors felt that the program should have been more flexible in order to permit its adaptation to specific local circumstances and target populations. Although sponsors acknowledge that the Nehemiah funds were essential to their ability to offer affordable homeownership opportunities, most feel that they could have proceeded much faster with their programs and achieved a greater number of sales if there had been fewer restrictions. A number of these organizations have already been designated CHDOs for the local HOME program, and they are looking forward to the greater flexibility inherent in the homeownership component of the HOME program.

Finally, two out of every three sponsors said they would have liked more technical assistance at the front end of their projects, to resolve design, financing and site control issues and/or to better understand program rules and requirements from the beginning. They emphasize the importance of technical assistance both to design better projects and to anticipate difficulties they might encounter (such as pre-qualifying buyers). Under HOPE III and HOME, the planning grants available to project sponsors and the technical assistance offered by HUD will go a long way toward resolving many of the administrative dilemmas encountered under the Nehemiah program.

APPENDIX A

DESCRIPTION OF THE NEHEMIAH PROGRAM

The Nehemiah Housing Opportunities Grant Program is designed to enhance homeownership opportunities in depressed areas, while also stimulating neighborhood revitalization and increasing employment opportunities for residents. Created by the Housing and Community Development Act of 1987, the Nehemiah program was modeled after a successful low-income homeownership and neighborhood revitalization program that began in Brooklyn, New York. The New York program used a variety of public and private funding sources, along with low- cost construction techniques, to produce single family units selling for \$53,500 each. The units were made even more affordable to purchasers through interest-free second mortgages of up to \$10,000 per unit provided by the City of New York.

In the federal Nehemiah program, Congress sought to replicate the Brooklyn project at a national level, offering nonprofit organizations funding of up to \$15,000 per unit that would be used to provide zero-interest loans to new homeowners. This Appendix provides an overview of the Nehemiah program. It begins with a summary of the New York experience, followed by a review of key provisions of the national program.

A.1 The New York Model

New York's Nehemiah program was an innovative local response to conditions of widespread abandonment and demolition in the Brownsville section of East Brooklyn.[1] By the early 1980s, Brownsville had become one of the most dilapidated areas in the city. About 9 percent of the housing stock was vacant; half of this was boarded up, the other half in severe disrepair. Only 5 percent of the standing dwelling units were owner-occupied. The median household income was less than 50 percent of that of the metropolitan New York area, and about 45 percent of the area's residents were living below the poverty level—a rate three times that

1. The information contained in this section is taken from "The Nehemiah Approach to Homeownership and Neighborhood Revitalization," Office of Policy Development and Research, Department of Housing and Urban Development, March 14, 1986.

of the metropolitan area. Unemployment was two to three times as high as that in the surrounding city.

In the face of clear need for an inexpensive neighborhood solution, several religious and nonprofit organizations joined together to conceive and implement the Nehemiah project. In 1980, a group of East Brooklyn churches, with the help of the Industrial Area Foundation (IAF), started a social action group and began training parishioners in organization, fund-raising, and recruitment. Out of this activity, East Brooklyn Churches (EBC) became incorporated and grew into a powerful community organization. In 1982, EBC approached I.D. Robbins, a retired builder who had published several articles on revitalizing severely distressed areas using mass production building techniques to produce affordable ownership housing.

The resulting project—named Nehemiah[2]—produced 1,250 single-family units at the Brownsville site. To be eligible to purchase Nehemiah homes, families had to earn a minimum yearly income of $20,000 and pay a $5,000 downpayment on the house. EBC achieved a sales price of only $53,500 per house through a variety of public and private subsidies, plus the use of innovative construction techniques. Savings, as estimated by a 1986 HUD review of the program, included:

- ***Free Land.*** Vacant lots were sold to EBC for a nominal fee of $1 per lot, saving the cost of construction-ready land of about $2,000 per unit.

- ***Cost-Cutting Technology and Existing Infrastructure.*** An important feature of the New York project was cost savings achievable through the concentrated layout of the project and mass production building techniques. The houses are two-story row houses built with full block fronts, a design that allows the excavation work for dozens of units to be completed at one time. Similarly, building components could be shipped and assembled for multiple units simultaneously. While cost savings from building efficiencies were not estimated, HUD's study of the New York program reports the opinion of the Nehemiah project manager that alternative building approaches (scattered sites or detached units) would have been prohibitively costly.

  In addition to cost-cutting building techniques, the project benefitted from the special characteristics of the Brooklyn site. In particular, since housing had already existed on the site, water and sewer hook-ups were already in place. EBC

2 After the Biblical prophet who, in the fifth century BC, reconstructed Jerusalem after the Babylonian captivity.

also received a waiver of a city code requirement concerning water and sewer, saving an estimated $6,000 per unit.

- ***Interest-Free Construction Loan.*** EBC had set up a five-year, $12 million revolving loan fund for construction financing. The fund was created from five-year loans from national religious organizations, and was sufficient to support $100 million in construction over a two- to three-year period. The availability of zero interest construction financing was estimated to have saved up to $6,000 in interest cost per unit.

- ***Low Overhead Costs.*** Overhead costs for the Nehemiah project amounted to about 6 percent of total costs as compared to 20 percent in more typical projects. Savings in this category included low selling expenses (due to high demand, advertising was not needed); reduced fees (the architect received a fixed royalty of $150 per house and the builder made a fixed profit of $1,000 per house); and low transfer costs (for example, mass closings for purchasers were held to keep costs down).

Together, these savings permitted the homes to be sold at $53,500, compared to an estimated cost of $73,000 (before land) in the absence of the construction loan fund, efforts to keep overhead down, and the water and sewer waiver.

Further, to ensure that low- and moderate-income families could maintain their property, monthly carrying costs to homeowners were kept as low as possible. Mechanisms for reducing monthly costs included:

- ***Capital Grants.*** Each family received a $10,000 capital grant loan from the city that is interest-free and payable when the family, through sale or lease, vacates the property. According to HUD estimates, the grant saves each homeowner about $100 per month.

- ***Mortgage Revenue Bonds.*** The State of New York Mortgage Association (SONYMA) issued 30-year mortgage financing at 9.2 percent interest, as compared to an estimated private market interest rate of 12 percent, saving homeowners $79 per month.

- ***Tax Abatement.*** The City of New York reduced property taxes for Nehemiah homeowners, for an estimated monthly savings of $85 per unit.

Overall, HUD estimated that the subsidies described above reduced carrying costs on the units by 58 percent. These savings, combined with development cost savings described previously, resulted in carrying costs that were roughly half of what they otherwise would have been.

With the Nehemiah program's savings, a family making $20,000 a year would spend 28 percent of income on home-ownership costs, as compared to 56 percent of income if purchasing a home in the private market.[3] The Brooklyn Nehemiah project is considered to be highly successful, both in terms of the production of affordable units and its neighborhood redevelopment impact. Three aspects of the New York model that were thought to contribute particularly to this success include: (1) the capacity of EBC to package the project, (2) the availability of cleared land to support the concentrated building approach used by Nehemiah, and (3) the demand for ownership housing in the New York market that made the Nehemiah project attractive to moderate-income buyers.

A.2 The National Program: Funding and Status

Using New York City's Nehemiah program as a model, Congress established the Nehemiah Housing Opportunity Grant Program under title VI of the Housing and Community Development Act of 1987. The goals of the program were to increase homeownership among low- and middle-income households, to improve neighborhoods in cities across the country, and to increase employment in these neighborhoods.

Since its inception there have been three funding rounds under Nehemiah, providing a total of $60.2 million in grants to nonprofit organizations. (Grants may only be used to make loans to low-income families purchasing new or rehabilitated homes, and cannot be used to cover construction costs.) In the first round of funding in 1989, 15 grantees were awarded $18.9 million, covering a total of 1,321 units. In the second round in 1990, 21 grantees received $21.3 million to construct 1,437 units. Finally, in 1991, a third and last round of 18 grantees received $20 million to develop 1,353 homes. The Nehemiah program was canceled after the 1991 round, and no new funding is anticipated. However, activities similar to Nehemiah may be funded under the HOME initiatives created by the 1990 National Affordable Housing Act.

3. Actual incomes of purchasers ranged from $20,000 to $40,000, with the program median at $23,500. This compares with a national median of $27,500 annually and a New York City median of $27,200 per year.

A.3 Key Features of the Nehemiah Program

The national Nehemiah program design was faithful in most respects to its New York counterpart. HUD provides the interest-free second mortgages similar to the capital grant provided in New York. Nonprofit sponsors are responsible for securing all other funding and packaging the development program. While funds could be requested for up to $15,000 per unit, organizations were encouraged to minimize federal dollars through competitive funding criteria that awarded points to projects that provide the maximum number of units for the least amount of assistance. In order to leverage state, local, and private involvement, program regulations forbid the use of Nehemiah grants in conjunction with other HUD subsidies except for CDBG funds. (However, families purchasing Nehemiah homes may use HUD mortgage insurance programs.)

Eligible Nehemiah sponsors are nonprofit organizations that can demonstrate the capacity to carry out the proposed program within a reasonable time period and in a successful manner. Applicants had to further demonstrate that there was a demand for homes in the area to be served, that the proposed project was financially feasible, and that the applicant had control of the proposed site(s). Other key elements of the approach are outlined below.

Land and Other Contributions

As noted above, the Nehemiah program envisioned a mix of funding sources to support construction of homes and reduce costs to purchasers. HUD's ranking criteria for the selection of grantees included factors for nonfederal or private contributions of land and for the extent to which other contributions were used to reduce costs (for example, discounted surveyor's fees, or supplies donated at or below cost). Programs in state-designated enterprise zones received extra points under the selection criteria.

Eligible Projects

Nehemiah projects are limited to one- to four-unit structures that are newly-constructed or substantially rehabilitated. Substantial rehabilitation was defined under the program as rehab involving costs of at least 60 percent of the sales price or the rehabilitation of any vacant, uninhabitable structure. Proposed ownership types could include condominium or cooperative ownership in projects of four or fewer units.

Size of Program

In order to provide for economies of scale and to achieve neighborhood impact objectives, Nehemiah established a minimum number of homes that an organization must propose to build or substantially rehabilitate based on the number of dwelling units in the jurisdiction. In cities with 20,000 dwelling units or less, recipients of Nehemiah funding were required to complete at least 50 homes. Projects in areas with between 20,000 and 100,000 units were to produce at least 0.25 percent of the number of units in the area. In cities with over 100,000 units, the minimum number of homes to be produced with Nehemiah funding was 250. Program size requirements could be waived, however, upon a finding that a program of the required size could not be supported due to lack of market demand, insufficient available land, inability to raise sufficient financial contributions, or insufficient mortgage financing. Approval of waivers also required findings that the proposed project would result in cost reductions (economies of scale) comparable to other programs and would still result in overall improvements in neighborhood quality.

Eligible Areas

Eligible areas for Nehemiah funding were limited to neighborhoods or census tracts where median family income did not exceed 80 percent of the area median. Area median was to be established on the same basis as for the Section 8 program. Neighborhoods smaller than census tracts could be proposed with adequate justification for income estimates.

Concentrated Improvements

The program could be located in a single neighborhood or in up to four separate neighborhoods, as long as the units were located on contiguous parcels of land. To pursue the program in multiple neighborhoods, applicants had to show that suitable land in a single neighborhood was not available at a reasonable cost, that the program would still result in economies of scale comparable to other programs, and that the program, along with other contemplated neighborhood improvements, would result in substantial improvement and long term viability of the neighborhoods.

For the purposes of the program, the term "contiguous" was given special meaning. Contiguous parcels included those that abutted or were divided only by natural or man-made boundaries (such as streets or rights of way), or "closely-located" parcels. The latter included sites where the majority of homes abutted or were divided by natural or man-made boundaries or by a small number of lots, ***and*** the remainder were separated from the primary parcel by less than two city blocks.

Construction Standards and Cost

Homes constructed or rehabbed under Nehemiah were required to meet applicable local building codes and HUD energy performance standards. In addition, sponsors were expected to incorporate cost-saving technologies or mass production building techniques in order to reduce the sales price of the house. Efficiencies in construction were encouraged through competitive criteria which provided points for projects that reduced per square foot construction costs below the average costs for the area.

Presale Requirements

In order to assure that the proposed programs were marketable, the Nehemiah statute required that prior to construction, 25 percent of the planned units be contracted for sale and purchaser downpayments received. Programs could, however, construct a limited number of model or display homes. Display homes were limited to 5 percent of the total number of units or three homes for a program of under 60 units.

The 25 percent presale requirement proved especially difficult for grantees to meet, and in fact, several of the first round grantees misunderstood (or ignored) the requirement, completing an initial phase of units without the required number of presales. In 1991, an amendment (known as the Fowler Amendment) was passed which eased the presale requirement somewhat by allowing grantees to begin the construction of units when 25 percent of the units ***in a phase...consisting of at least 16 homes*** were presold.

Eligible Buyers

Eligible purchasers of Nehemiah houses were first time homebuyers (defined as households that had not owned a home within the previous three years), whose incomes at the time of purchase did not exceed the local area median income or the national median income, whichever is higher. Grantees could, however, request a waiver in order to permit up to 15 percent of the households to have incomes of between 100 and 115 percent of the area median.

Downpayments

In order to encourage savings, the Nehemiah statute required that purchasers make a standard downpayment of 10 percent of the sales price. The regulations also precluded a government entity from assisting a family in making the downpayment. However, in order to make the program more affordable, cash contributions for settlement costs could be included in the required 10 percent. Also, where a state or local government provided the mortgage financing and required a lower downpayment, the lower amount would prevail.

Repayment

The terms of the HUD second mortgage required repayment of the loan if the family sells, leases, or transfers any interest in the property. Refinancing will also trigger repayment if the refinancing involves an equity withdrawal. In cases of undue hardship, however, the regulations permit HUD to approve sale, equity withdrawal, or transfer without repayment. This provision was intended for cases in which the proceeds of the sale were insufficient to repay the loan in full. However, uncertainty surrounding this provision led in 1992 to a second amendment to the program statute. Specifically, Section 183 of the Housing and Community Development Act of 1992 added a "homeowner incentive" under which sale proceeds remaining after repayment of the first mortgage and the homebuyer's downpayment would be shared between HUD and the seller until the Nehemiah loan was fully repaid. Where proceeds were insufficient to repay the Nehemiah loan in full, the remaining mortgage would be cancelled by HUD.

While Nehemiah is first and foremost a homeownership program, neighborhood goals also figured highly in the design. Neighborhood improvement objectives are seen in the requirements for concentrated improvements as described above. Additionally, project selection factors favored programs located in blighted areas, as evidenced by physical conditions, unemployment rate, median income, and crime rate. Finally, project sponsors were required to identify—and HUD considered as a selection factor—the extent of neighborhood resident involvement in the program. Such involvement could include resident employment in the construction of the homes and/or participation in an advisory role or in related neighborhood improvement activities.

APPENDIX B

THE NEHEMIAH HOUSING OPPORTUNITIES PROGRAM BALTIMORE, MARYLAND

B.1 Introduction and Overview

The Nehemiah project in Baltimore provides an example of how the national Nehemiah Housing Opportunities Program can work when community actors, a sophisticated nonprofit developer, and city and state officials team up to produce an affordable homeownership project. Under the program, 283 new townhouses have been built in two adjoining neighborhoods, and an additional 17 units have been rehabilitated. At 300 units, the Baltimore project is the largest of the 15 Nehemiah projects funded in 1989, and is the first to be completed.

The Baltimore project is located in the Sandtown-Winchester and Penn North neighborhoods, an area of Baltimore that offered both the largest available parcel of land for the project and some of the worst housing and social conditions in the city. Once a center of African-American neighborhood and cultural life in Baltimore, Sandtown went into decline during the 1960s when the civil rights movement made it possible for many residents to move to other parts of the city. Houses that had been owner-occupied became rental units, and the neighborhood deteriorated steadily. By the time of the Nehemiah application in 1989, nearly half of Sandtown's residents lived in poverty, 45 percent of the families received public assistance, and only 18 percent of the area's housing units remained owner-occupied. Since most of Baltimore's neighborhood improvement activity during the 1970s and 1980s had been focused in other parts of the city, Sandtown-Winchester was a priority area for any new city revitalization efforts even before the Nehemiah program was begun.

Financing to build the Nehemiah units came from a variety of sources, including: low-interest city loans; city contributions of land, infrastructure and site improvements; an interest-free construction loan from a coalition of area churches; and smaller contributions from one of the project sponsors (the Enterprise Foundation) and a local utility. All told, this support enabled the project sponsor to lower the sales price of the units from roughly $88,500 (total development costs) down to $62,500. From the buyers' perspective, the units are an even greater value, since only the first mortgage ($37,500 from the state housing finance agency) requires monthly repayments. The remainder of the purchase price is covered by the deferred, zero-interest Nehemiah second mortgage ($14,000), a forgivable third mortgage from the city ($6,500), and city grants to cover downpayment and closing costs.

The Baltimore Nehemiah project was completed in the summer of 1993, approximately three-and-a-half years after the HUD grant was awarded in fall of 1989. At the present time, the units appear to have had an important impact on the perceptions of neighborhood residents about the ***potential*** for neighborhood restoration, even though there is plainly still a long way to go. The pastor of the neighborhood's 105-year-old Catholic church and school feels that the project's impact extends beyond the immediate neighborhood, encompassing families who have moved away from Sandtown but retain a connection to it. He believes Nehemiah would currently rank as one of the top sources of pride among the city's African-American community.

In addition to changing expectations about the neighborhoods' future, the Nehemiah project has introduced several hundred new, working families into the area, many of whom are extremely concerned about neighborhood conditions and appear strongly motivated to work for increased security, sanitation, and housing rehabilitation. Despite having a substantial visual impact on the blocks where the Nehemiah units are located, however, the development is clearly only a fragile first step—one that could be overwhelmed if additional development and improvement is not undertaken to support and strengthen the Nehemiah foothold. In recognition of this fact, and to test more holistic approaches to neighborhood development, the Sandtown neighborhood is currently the focus of an unprecedented "neighborhood transformation" project, a joint initiative of the city and the Enterprise Foundation, for which the planning stage has just been completed.

This report is intended to document the Nehemiah project in Baltimore, with special attention to the actors and organizations that produced the Nehemiah project (and are now engaged in its reinforcement and expansion) and to the beneficiaries of the Nehemiah grants—the 300 homebuyers who purchased the units. The report is based on documents obtained from the project sponsors, plus interviews and other field data collection conducted in March 1992 and again in September 1993. During the second site visit, four focus group sessions were held. Three of these were with groups of Nehemiah purchasers, and one was with other residents of the Sandtown and Penn North neighborhoods.

This report is organized into six sections. Section 2 focuses on the entities that conceived and carried out the Nehemiah project; it provides information on the roles, motivations, and perspectives of each. The section also addresses the role of neighborhood organizations and other actors in the Neighborhood Transformation demonstration now underway. Section 3 focuses on the features of the Nehemiah project itself, including a description of the site, the units, the process of construction, project financing arrangements, and an assessment of property values and unit affordability. Section 4 focuses on the sale of the Nehemiah units, specifically the marketing approaches used, applicant selection and processing steps, and the demographics of the homebuyers. Section 5 presents viewpoints on the program from the perspective of its immediate beneficiaries (based on the homebuyer focus groups) and from the perspective of other neighborhood residents. Finally, Section 6 concludes with an assessment of the program in terms of potential impacts on the neighborhoods. This section also incorporates sponsor recommendations on the HUD Nehemiah grant program.

B.2 Project Participants and Roles

A variety of governmental and non-governmental actors participated in the Baltimore Nehemiah project. Two nonprofit organizations—BUILD, a coalition of Baltimore churches, and the Enterprise Foundation—joined forces to sponsor the project. Various offices of the city of Baltimore made very substantial commitments to the project in terms of financing, land, infrastructure, and processing. Other governmental actors included Maryland's state Community Development Administration (which provided low-interest first mortgage loans for the purchasers) and HUD (which provided the deferred payment Nehemiah second mortgages). Two neighborhood associations, Sandtown-Winchester Improvement Association and the Penn North Community Association, also participated in the project.

Origins of the Nehemiah Project

The Baltimore Nehemiah project was spearheaded by BUILD, a coalition of 45 churches and one union that operates citywide in Baltimore. Organized in 1977, BUILD is affiliated with East Brooklyn Churches (EBC), the sponsor of the Brooklyn Nehemiah project that produced 1,250 units in a devastated section of Brooklyn, New York and served as the model for the national Nehemiah legislation. BUILD is also a member of the Industrial Areas Foundation (IAF), which is a national network of church and labor organizations, all of which have as their primary focus grass roots organizing and empowerment of poor, working- and middle-class communities. Churches have become increasingly important in the IAF movement, due to their physical location in such communities and their resulting institutional self-interest in the health of these areas.

Prior to 1987, much of BUILD's activity in Baltimore focused on the issues of redlining and school reform. However, in 1987 the organization began to focus on housing issues. Their interest was spurred by increasing residential abandonment in the city, by the central role of boarded-up and abandoned buildings in the expanding crack trade, and the absence of federal funding to fight deterioration. As part of its 1987 convention, BUILD adopted a city-wide goal of producing 1,000 units per year of owner-occupied housing—an agenda that was ultimately embraced by then mayor Clarence Du Burns, as well as by mayoral candidate (and successor to Du Burns) Kurt Schmoke. BUILD also began to investigate the Brooklyn Nehemiah housing model developed by EBC. Several visits to Brooklyn were arranged for local community members and political leaders, and BUILD helped lobby for the national Nehemiah legislation that passed in 1987.

Through 1988 and 1989, BUILD held a series of meetings with Mayor Schmoke and his staff, as well as with Governor Schaefer, to develop a Nehemiah plan for Baltimore and to solicit funding commitments for the project. Based on the work of an in-house city task force set up specifically to explore options for the project, the Mayor agreed to participate and identified Sandtown-Winchester as the target site. The package included city donations of land and site work, as well as a large city commitment for development financing. Permanent financing was to come from the state's housing finance agency. For its part, BUILD was required to raise $2.2 million to assist in construction.

According to Father Robert Kearns of St. Peter Claver Church, BUILD's fundraising strategy began with an agreement that the Catholic, Jewish, and Protestant communities would each commit to raising a third of the funds. Within the Catholic community, for example, $300,000 came from the Archdiocese and the remainder was raised from Catholic institutions such as hospitals and colleges. All funds were contributed in the form of zero-interest loans that would be repaid in seven years or on completion of the project. According to Kearns, BUILD made a deliberate decision not to approach foundations for the money, but rather to raise it from constituent institutions. The appeal was based on the self-interest of the institutions, all of which would benefit from the renewed vitality of the city and its neighborhoods. The fundraising strategy also reflected a BUILD organizing principle whereby "community infrastructure" is created by binding parties together in mutually supporting activities. For example, a local hospital that was asked to contribute was also asked for a list of employees that lived in the Sandtown neighborhood, several of whom ultimately became Nehemiah purchasers.

Once BUILD received the necessary funding commitments, it convinced the Governor to commit a total of $11 million for mortgage financing and also asked the Enterprise Foundation to serve as the project developer. Throughout 1988, James Rouse of Enterprise had been working with local nonprofits in Baltimore and also talking with public officials about initiating large-scale neighborhood revitalization efforts. BUILD approached Enterprise to serve as project developer for Nehemiah because Enterprise would bring the project considerable credibility on the construction and management end, and also because Enterprise's social mission appealed to BUILD. Jim Rouse also had good connections with several BUILD founders. The involvement of the Enterprise Foundation was also viewed favorably by the city, which at that time was working with Enterprise on a structured UDAG-funded homeownership project in another part of Baltimore.

The final piece of the Nehemiah financing puzzle was the $4.2 million commitment of Nehemiah funds requested in the August 1989 application to HUD. It is important to point out, however, that the other commitments were made long before the request for federal funds, and that all of the planning (including the involvement of the Penn North and Sandtown-Winchester neighborhood associations) had already been completed. As early as March 1989, the city and local partners held a rally to publicly celebrate these commitments. According to Kearns, if the HUD Nehemiah grant had not been awarded, another source of funding would have been found to carry the project forward.

Implementation Phase

To actually produce the Nehemiah units, in 1989 Enterprise and BUILD formed a new nonprofit, Enterprise Nehemiah Development, Inc. Enterprise continues to have a controlling interest in this organization and serves as the developer and managing partner. The board is composed of five representatives from the Enterprise Foundation and four from BUILD. Currently, five of the nine members are neighborhood residents. Although the Enterprise-Nehemiah entity was formed specifically for the Nehemiah project, now that the development is complete, both BUILD and Enterprise representatives have indicated that additional projects may be undertaken under the Enterprise Nehemiah name.

Of the two partners, the Enterprise Foundation brought extensive housing experience and development capability. Enterprise had built or sponsored the development and rehabilitation of over 8,000 low-income units nationwide; by 1989, it had completed more than 406 units in various parts of Baltimore. Enterprise maintains a staff of approximately 150 persons, including experienced development and financial personnel. The project manager for Nehemiah was Chickie Grayson. With approximately 25 percent of her time committed to the project, Grayson managed the overall effort (including financing, city relationships, construction progress, and sales). Sharon Grinnell, Grayson's assistant, worked closely with the city and state monitoring the progress of the permanent mortgage loan processing in order to assure that buyers would be ready to move in when the units were completed. Either Grayson or Grinnell visited the Nehemiah construction site every day.

With three member churches located in Sandtown, BUILD provided an essential link to neighborhood residents, as well as all-important financial support. While Enterprise handled physical aspects of the construction, BUILD considered its mission to build the social infrastructure of the community. For Nehemiah, this included arranging for homebuyer training and providing ongoing support for the newly forming homeowners' associations.

Several other participants were involved in the day-to-day implementation of the Baltimore Nehemiah project, including:

- Ida Wyatt of Homecoming Realty, who marketed the units and pre-screened buyers;
- Rose McCoy, hired by BUILD to provide homeownership courses;
- A consortium of builders (Ryland Corporation, Streuver Brothers, and Eckles and Rouse) who managed the preparation, delivery, and assembly of the modular townhouse units on a fixed-price basis;
- The city's CDBG rehabilitation office, which more or less independently completed the 17 rehabilitation units, while Enterprise focused on the new construction units;

- City staff responsible for processing the state Community Development Administration loans;[1] and

- Representatives from the city offices of transportation, public works, and housing, who met on a bi-weekly basis, both with Enterprise staff and as an in-house task force, to keep the program on track and help guide it through the city bureaucracy.

According to Grayson, Enterprise's project manager, one of the keys to completing the project was the city's commitment not only to financing but also to making the project a priority in terms of inspections, approvals, and other necessary steps. City staff agree that the project was atypical—and received priority treatment—due to its size, the amount of city money involved, and its visibility in terms of the commitments made by the Mayor and the city's religious leaders.

Role of Neighborhood Organizations

Neighborhood representation and community input for the Nehemiah project came from two pre-existing neighborhood organizations, the Sandtown-Winchester Improvement Association (SWIA) and the Penn North Community Association. The two groups are CDBG-funded neighborhood organizations created in the late 1970s and early 1980s, respectively. SWIA is the larger and more active of the two. A number of SWIA staff had been trained by the city as housing counselors; as a result, SWIA was asked to participate in the counseling of homebuyers as well as to help Enterprise with marketing efforts. SWIA has a subsidiary (the Sandtown-Winchester Development Corporation) that had previously rehabilitated 11 rental units in the neighborhood. SWIA was also a partner in the development of approximately 50 cooperative and condominium units, and had lobbied for other projects including a 120-unit senior building, scattered-site public housing rehabilitation, and several conversions of school buildings into elderly housing. Prior to Nehemiah, the Penn North Community Organization had played primarily an advocacy role.

The two neighborhood organizations participated in Nehemiah both in a general advisory capacity (e.g., consultations on unit design and the locations of the renovated units) and

---

1. The city packages the loans and does all of the credit checks After the loans pass the city's review, they are sent to the state for underwriting and final approval A local bank disperses the funds for the CDA.

also in the marketing of the units. (As mentioned above, SWIA also provided homebuyer counseling.)

Both community organizations were supportive of the project and were involved in its progress. However, neither played a ***primary*** role in Nehemiah. All of the parties admit that among the nonprofits, there is a certain amount of institutional jealousy surrounding the Nehemiah project. SWIA, in particular, had already completed some rehabilitation in the community, had lobbied hard for development of the Nehemiah site, and understandably wanted recognition for its work. The level of organizational friction appears to have increased in recent months, as the new Nehemiah homeowners have now formed their own homeowners' associations to represent their interests. Finally, the Sandtown neighborhood has now become the focus of a massive revitalization planning effort (the "transformation project"), which will be described below. SWIA has been a participant in that process, but it is likely that at least two new nonprofit entities will be created as a result—a nonprofit center for housing development and a new partnership entity to lead and manage the larger transformation effort.

There was also an apparent problem around neighborhood representation early in the Nehemiah project. This was largely due to turnover among the board of the Penn North Community Association, resulting in the election of a new chairperson and several other board members who were less supportive of the project than their predecessors. The new players were particularly concerned that the modular construction technique used in the project would limit the number of jobs for neighborhood residents. Two Penn North residents sent a letter to HUD Secretary Jack Kemp complaining that the community had not been involved in decisionmaking for the project, raising the jobs issue, and questioning the selection of the construction contractors. These issues were ultimately resolved, but the letter cost the project a six-month delay.

Despite some friction, the wider community has always demonstrated fundamental support for the Nehemiah project. According to Ella Johnson, SWIA's President, "All of the people involved wanted it to work. The neighborhood wanted it—wanted a project geared to low-income people and wanted CDBG money used for this. The churches did their part. So did elected officials."

New Actors and Organizations in Sandtown

The Nehemiah project has resulted in the creation of two new local community organizations—the homeowners' associations at Sandtown and Penn North. As noted above, there is acknowledged tension between existing residents and the new owners. Some longer-term residents accuse the newcomers of "acting superior." The creation of separate homeowners' associations has tended to reinforce the appearance of aloofness and has raised fears that the new owners will only be concerned about what happens on their own property. Some longer-term residents also believe that the Nehemiah units should have been reserved for neighborhood residents rather than sold to "outsiders." However, at the time the units were marketed, very few neighborhood people applied—despite concerted efforts by SWIA—and the lists filled up rapidly with others. Once the units were under construction, according to Johnson, "they began to see it and believe it," but it was then too late. As a measure of this change in attitudes, SWIA members point out that, if the units were being marketed today, neighborhood people would sign up readily.[2]

However, it is important not to overemphasize the tension between new and older residents. As Johnson points out, many of the new homebuyers do participate in various SWIA activities. BUILD, for one, actively supports the development of the new homeowners' associations and is working with them. As revealed by the homebuyer focus groups conducted for this study, the homebuyers have many concerns in common with other residents—particularly drugs, crime, and abandoned buildings—but have a slightly different perspective on the problem (and perhaps less tolerance for it), since the majority have moved to Sandtown from generally safer and less deteriorated neighborhoods. BUILD acknowledges that its agenda from day one was to use homeownership as a device to organize people—to control how the community is policed, to bring in commercial activity, and to empower the neighborhood to create change. Some of this change appears to be happening already. Homeowners believe that their efforts and complaints are beginning to have an effect on the police; a station is now located in the neighborhood. There is also some evidence to suggest that crime rates have decreased over the past year (see Section 6). However, both longer-term and new residents agree that the 300

2 Enterprise staff indicated that in order to address this concern, units in the last phase of the development were held open specifically for neighborhood residents

Nehemiah units are simply not enough. Both groups are pushing for an immediate and sizable expansion of rehabilitation activity.

Future Directions

Since 1990, the Sandtown neighborhood has become the focus of an ambitious plan for "neighborhood transformation," including initiatives in housing, education, human services, health care, public safety, and employment. While separate from Nehemiah, the effort brings together many of the same parties (city government, the Enterprise Foundation, and residents) and builds on the Nehemiah foundation. The transformation effort, now known as Community Building in Partnership (CBP), was the initiative of the Enterprise Foundation to simultaneously transform all of the dysfunctional conditions in the neighborhood and to demonstrate the feasibility of a holistic approach for urban revitalization.

Launched in 1990, CBP has been guided by an Advisory Committee composed of Enterprise, city officials, residents, and community leaders. Enterprise has provided a project coordinator to work on key tasks, and the city has provided a cabinet-level city official who operates out of an office in a renovated townhouse in Sandtown and manages the organizing and planning effort. Seven community advocates were hired to assist with special projects and keep the community involved. A total of 19 community residents are on the CBP staff.

Much of the initial work of the project has focused on planning. This began in October 1990 with an eight-month community planning effort both to identify needs and to develop a vision for transformation in eight focus areas (physical development, health care, education, family development, substance abuse, public safety, community pride, and employment/ economic development.) This was followed by six months of work by design clusters (involving professional coordinators, residents, and national experts) whose task was to develop specific programs and steps for achieving goals in each area.

The result was "A Proposal to Transform the Sandtown-Winchester Neighborhood," which was approved by the neighborhood and submitted to the mayor at a March 1993 celebration of the conclusion of the planning process. However, the mayor surprised those in attendance by announcing his own goal of renovating *all* of the neighborhood's vacant housing (some 670 properties) within a year's time—a substantial acceleration of what the community had proposed. In the housing area, the plan calls for the creation of a new, nonprofit

Neighborhood Development Center to assist in development and to assemble financing for the rehabilitation. Over five years, a total of 3,400 units are to be treated, requiring both a massive investment of funds ($170 million is the rough estimate) and a "major player" to handle the development. The larger transformation effort is to be implemented by another new nonprofit (CBP), which will take over management from the Advisory Committee.

As of September 1993, the CBP initiative is only just moving into the implementation phase. Financing plans for the renovation of all 670 vacant buildings by March 1994 are not fully worked out. However, city officials are in the process of packaging the properties into development projects. At this point, 300 units are slated for renovation and homeownership (100 to be done by the Enterprise Nehemiah entity and 200 by others); 225 more are to be renovated as rentals using a state rental program; and roughly 140 units will be demolished. The city will be the major funding source for this work, but at an estimated cost of $60 million, other government commitments, including HUD funds, will need to be raised. Although it is unlikely that significant rehab will be undertaken in time to meet the mayor's March 1994 timeline, it is hoped that the city will at least have control of all the properties by then. All methods are being considered, including condemnation, tax sales, and receivership.

For its part, BUILD participates in CBP; however, according to Father Kearns, it is more of a silent partner in the planning activity. Kearns expressed some concern about the multiplicity of entities proposed under CBP and the possibility of wearing people out with such an ambitious agenda. At the same time, BUILD members are actively pursuing the continuation of the Nehemiah approach, and they hope to provide additional tangible results by renovating another 300 units for homeownership. To this end, BUILD has asked its initial funding sources to allow the loans to remain outstanding until May 1997 (the original terms were until 1997 or completion of the project). So far, it appears that as many as nine out of ten of the original funding sources will stay in.

B.3 The Nehemiah Project

Site Selection and Acquisition

The Sandtown-Winchester neighborhood is a 72-block section of West Baltimore with a current population of just over 10,000 persons. The smaller Penn North neighborhood is adjacent. Some 12 percent of Sandtown's housing units were estimated to be vacant and abandoned at the time of the Nehemiah application in 1989. Many more were in deteriorated or dilapidated condition. Even today, a drive through Sandtown, including the immediate Nehemiah neighborhood, reveals severe deterioration, large numbers of boarded-up properties, a great deal of trash and litter, and other signs of general decay.

Social conditions in Sandtown are similarly bleak. Once the home of Baltimore's African-American professional class, Sandtown's homeownership rate was about only 18 percent at the time of the Nehemiah application. The average income is currently about $11,500. Nearly 50 percent of residents are living in poverty; over 40 percent of households have no earnings; and the unemployment rate is 22.1 percent. Crime and drugs are major problems.

By all accounts, it was the city government that selected Sandtown as the site for the Nehemiah project. Having made relatively little investment in the area in the 1970s and 1980s, the city had made Sandtown a priority target area by 1987, and was already working with CDBG-funded resident groups to acquire properties, including the site of a former bakery that was one of the few vacant parcels large enough to meet the Nehemiah program's size requirements. BUILD was happy with the neighborhood selection, since three of its churches were located in the neighborhood. The city provided all of the parcels (valued at $966,000) to the project for $300. The city also provided $1,859,300 for demolition and $5,706,300 in public improvements to build the infrastructure of streets, sewer, and water lines.

Project Characteristics and Construction Process

The Baltimore Nehemiah houses are unique in the Nehemiah program. The 283 new units are row houses with a brick veneer and stoop that fit well with the traditional Baltimore row houses prevalent in the neighborhood. The new units are modular and were constructed in a factory north of Baltimore. The modules come to the site in four boxes, to be put together as a two-story row house. The wiring, plumbing, and most of the fixtures are in place when the modular units are delivered to the site. The housing is placed on a concrete-block masonry basement and foundation with a crane. Each house has a fully-insulated basement with a furnace and hookups for another bathroom and a washer and dryer. The units have three bedrooms and two baths on the second floor; a living room, kitchen, and dining area are on the first floor.

The fronts of all units and the sides of end units are brick veneer. The back of the units have aluminum siding that looks like wood. Each lot has a fenced backyard.

In addition to the new units, 17 rehabilitated units have been completed by the city. This activity was completed independent of the Enterprise work and done early in the process, in order to provide a sense of progress and momentum. The rehabilitated homes are larger (1,868 sq. ft.) than the new modular units (1,600 sq. ft.).

The contractor that produced the new units was a joint venture of Ryland Corporation, Streuver Brothers, and Eckles and Rouse, selected by Enterprise through a competitive bid. Under the fixed-price contract, Ryland handles the house construction and Streuver Brothers does the site work and foundations. (Ryland recently changed its name to Regional Building Services.) Given the security problems in the neighborhood, Enterprise needed to coordinate construction carefully with the approval of loans, so that the units were not vacant for more than ten days. Although the builder says he could deliver and complete the units twice as fast, the pace of the loan approval process determined the construction schedule. It generally took Ryland seven weeks to prepare the units for occupancy after they were delivered to the site.

The fixed-price contract helped keep construction costs down. Also, Enterprise held weekly progress meetings on the physical construction and bi-weekly meetings on construction costs. The units were inspected by a number of parties. Enterprise inspected individual units three times, including a walk-through with the homebuyer six months ***after*** the sale. The city inspected each unit twice, and the state used a third-party engineer to inspect the modular units at the factory. Ryland also had a quality-control inspector who examined the units as they were constructed on the site.

Several cost-saving techniques were used in the construction. Overall, the modular housing technique does not save much, if anything, over traditional stick-built construction costs, but it does save interest charges as well as security costs, since the houses can be locked up and secured immediately after delivery. Cost-saving design features included placing both bathrooms on the second floor, designing low-cost front stoops and back porches, and value-engineering the wall finishing. The value-engineered wall finishings were designed to be installed in the units with little labor; they also require only limited maintenance by the homebuyer. The units were designed to high energy-efficiency standards, with high R-value insulation in the walls and ceiling, and energy-efficient windows and doors.

Project Financing

The Baltimore project involved a large number of funding sources and substantial project subsidies. As noted earlier, the subsidies lowered the sales price from roughly $85,500 (based on the cost to complete) down to $62,500. The city of Baltimore made a major commitment to the project, providing over $24 million in loans and contributions as follows:

Land writedown	$ 966,000
Grants:	
Demolition (CDBG)	1,859,300
Infrastructure	5,706,300
Construction loans:	
CDBG	1,890,000
Community Development Financing Corp.	13,289,405
Waived fees and permits	337,620
Other in-kind contributions	73,900
Total	$24,122,525

The bulk of the construction financing ($13 million) was provided by the Community Development Financing Corporation, a quasi-governmental entity, at 10 percent interest. This was a revolving loan that was recycled several times over the construction period, with only $6 million permitted to be outstanding at any one time. According to city officials, the size of the project required CDFC financing to supplement block grant funds. CDBG funds were also supplemented by a Section 108 loan (secured by the city's CDBG allocation) for $5.7 million, to cover infrastructure costs.

In addition to the city contributions, private sources also contributed to the project. A local utility company, Baltimore Gas and Electric, provided free conduits and hookups at an estimated value of $252,063; and BUILD provided $2,180,000 as an interest-free loan. Initial working capital was provided from two $175,000 loans (from Enterprise and the city), which were then repaid as other financing became available.

The various sources of funds are shown in Exhibit B-1. These cover the full 300-unit project, including both the new and rehab units, and total $26,554,588 (or $88,515 per unit). Exhibit B-1 also shows uses of funds for the project, organized into two categories: (1) out-of-pocket expenses for building and marketing the modular units; and (2) contributions, including both grant-funded work (such as rehab and infrastructure improvements completed by the city) and in-kind contributions (such as the value of donated land and waived permits and fees).

Total project costs, as shown in Exhibit B-1, are based on the original project pro formas plus discussions with the grantee. Unfortunately, the final cost certification for the new construction portion of the project has not been completed. However, Enterprise staff indicated that the overall project should come in slightly under the original budget. City data for the 17 rehab units (hard costs only) show final costs of $1,325,182. This is comparable to $1,366,553 for structures and land improvements shown in the original Nehemiah rehabilitation budget.

Sales Prices, Market Values, and Affordability

The sales price for the Nehemiah units is $62,500, an amount that does not fully cover the costs of construction, site development, marketing, and project management. As described above, full project costs are roughly $88,500 per unit. Thus, the initial writedown to the new owners is about $26,000 per unit, most of this provided from city funds. Additional subsidies in the form of silent mortgages and closing cost assistance bring the first mortgage down to $37,500.

Although market values are hard to determine in the Nehemiah neighborhoods, they appear to be just over the amount of the first mortgage. The Penn North units were appraised as a block for a value of $40,000 each, while the Sandtown-Winchester units were appraised as a block for $48,700 each. A local realtor estimated in 1992 that houses in the neighborhoods sold for $50,000 to $60,000. There are no new construction comparables in Sandtown-Winchester or Penn North to use as a guide. However, similar units in other neighborhoods such as East Baltimore sell for around $65,000.

From the perspective of the homebuyers, however, market values do not seem to be very important. In focus group sessions, purchasers indicated that they were primarily attracted by the low carrying costs (typically lower than their previous rents) and what they perceived to be their only chance to own a home. Future values were of far less concern and would depend

EXHIBIT B-1

SOURCES AND USES OF FUNDS
Part 1: Sources of Funds

Type		Source	Amount
Private	Grants		
	BMIR loans	BUILD zero-interest construction loan	$2,180,000
	Market loans	CDFC construction loan at 10%	13,289,405
Public	Grants	CDBG (Section 108) land improvements	5,706,300
		CDBG demolition	1,859,300
	BMIR loans	CDBG zero-interest construction loan	1,890,000
Other	Downpayments		
	Sales proceeds		
	Other		
	Other		
Value of in-kind contributions	Land	City land donation	966,000
	Other	BG&E utility development	252,063
	Other	Waived fees, $377,620; in-kind, $73,900	411,520

Total sources of funds	$26,554,588

Number of units	300
Total per-unit sources	$88,515

EXHIBIT B-1 (CONTINUED)

SOURCES AND USES OF FUNDS
Part 2: Uses of Funds

Category	Out-of-Pocket Cost	Grants and Contributions	Total
Site acquisition	$300	$966,000	$966,300
Land improvements (city + BG&E)	0	5,958,063	5,958,063
Offsite			
Demolition	0	1,859,300	1,859,300
Construction (structures)	14,684,205	73,900	14,758,105
Construction period financing charges	125,500		125,500
Other construction period charges	361,200	337,620	698,820
Legal, organizational, marketing costs	1,503,500		1,503,500
Other	10,000		10,000
Fee	675,000		675,000
Total development cost	$17,359,705	$9,194,883	$26,554,588
Number of units	300	300	300
Total cost per unit	$57,866	$30,650	$88,515
Sales price			$62,500

on how much additional improvement work was targeted to the neighborhood. Most of the buyers also indicated little interest in selling their units, and expected to stay in them for a very long time.

The Baltimore Nehemiah units have extremely low carrying costs and are thus very affordable to the target buyers. In addition to the sales price writedown, the units carry two silent mortgages: the $14,000 Nehemiah second mortgage and a forgivable third mortgage from the city for $6,500. In addition, the city is providing grants of up to $3,800 for settlement costs. This leaves buyers with only a token downpayment of $700 and an amortizing first mortgage of $37,500. The CDA first mortgages carry below-market interest rates of 4, 5 and 7.75 percent, depending on buyer income. The 4 and 5 percent loans go to families with incomes of less than $24,300. The 4 percent loan carries a monthly payment of $254 (based on principal and interest at $179, taxes at $65, and insurance at $10); this makes the units very affordable to families with incomes well below the median. Indeed, these costs are also only slightly above median neighborhood rents of $235. Carrying costs at the highest interest rate (7.5 percent) are estimated at $352 per month. Affordability is also enhanced by a state-level real estate tax abatement on the units for 30 years.

SOURCES OF NEHEMIAH UNIT FINANCING

Source	Amount
CDA first mortgage (BMIR)	$37,500
Nehemiah second mortage (deferred)	14,000
Baltimore city third mortgage (forgivable)	6,500
Buyers downpayment	750
Settlement costs financing (city grant)	3,750
Total	**$62,500**

B.4 Marketing Issues and Buyer Characteristics

Marketing for the Nehemiah units was handled by a contractor (described below), with substantial assistance from SWIA, the Penn North Community Association, and BUILD's network of churches. One model home was constructed in each of the two neighborhoods. A marketing brochure was developed, but the sponsors found free publicity and word-of-mouth to be the most effective marketing tools. Enterprise purchased a few newspaper advertisements early in the marketing effort but found such advertising unnecessary. Local newspapers and television carried a number of stories about the project. The Nehemiah site was also visited by HUD Secretaries Jack Kemp and Henry Cisneros and then-presidential candidate Bill Clinton, with attendant publicity.

Enterprise retained Ida Wyatt, of Homecoming Realty, to help take applications and counsel potential homebuyers. She pre-qualified applicants and performed a short credit check. Applicants paid $5 for the first screening. If they passed, they paid $50 dollars for a more detailed city credit review. The city required 30 to 90 days to process an application before it was forwarded to the state. The state then processed the loan and made a decision within seven to ten days. A large number of applications were screened out before being passed on to the city for packaging. Of the applications sent to the city, the success rate was much higher, with possibly nine out of ten cases—ultimately receiving final approval.

Marketing for the Nehemiah units was extremely successful. The project received more than 4,000 applications and developed a list of 1,200 pre-qualified buyers. No more applications were taken after August of 1992. The effort clearly demonstrated a demand for Nehemiah-financed units well in excess of the 300 included in the project.

The income range served by the program is $9,060 to $34,000, with a mean income of $18,340. The mean family size is 2.28, and the mean age of the household head is 39. Of the 300 households, 38 percent (114) are single adults or couples. This group (mean age of 43) is older than the households with children and also more likely to include a male head of household (30 percent). Families with children comprise 62 percent of the homebuyer households. The mean age of the head of household for this group is 36, and 81 percent of these households are female-headed. All of the homebuyers are African-Americans. Based on discussions with Enterprise and the focus groups, about one third of the homebuyers came directly from the neighborhood and a number of others had lived in the neighborhood at an earlier time or had family ties in the neighborhood.

B.5 Resident and Buyer Perceptions

As part of this study, a series of four focus group sessions were held in September 1993. Three of the groups were conducted with new homebuyers, and one was held with other residents of the Nehemiah neighborhood. The opinions and concerns of the focus group participants are summarized below, beginning with the views of neighborhood residents who are not Nehemiah purchasers.

Residents' Perceptions

Neighborhood residents agreed that the Nehemiah project has had a positive impact on the neighborhood, but they were adamant about the need to move beyond Nehemiah and reach out to the neighborhood as a whole. Residents felt that in order for the Nehemiah project to be a catalyst for neighborhood change, the sponsors must follow through on promises made to them regarding the scope of improvements in the broader neighborhood. First and foremost, this meant rehabilitating existing buildings and enforcing code requirements against absentee landlords. As one participant put it, "They said this would be a showpiece, but what's the showpiece—the Nehemiah or the neighborhood?"

While residents agreed that the Nehemiah houses are well-designed and attractive, they pointed out that the surrounding areas remain an eyesore. Crime is still high in the neighborhood, and personal safety is a major issue. Some residents also expressed disappointment with the level of neighborhood employment provided by the Nehemiah project; while there were short-term jobs on site development, the modular construction techniques eliminated many construction jobs for residents. Residents indicated that they have not seen new small business or stores start up as a result of the Nehemiah project, although there was debate as to whether a new convenience store would be a good or bad addition to the neighborhood. There was a feeling on the part of some of the residents that the Nehemiah project was a separate community within their neighborhood and that Nehemiah residents were somewhat aloof. This feeling is partly caused by the perception that many of the homebuyers are new to the neighborhood. Some of the residents did not think that enough neighborhood residents became homebuyers, while others (several of whom were involved in the marketing effort) said that the project sponsors had bent over backwards to attract neighborhood applicants. One of the residents said that the homeownership criteria were too high and should be loosened up so more neighborhood residents could participate. Another (one of the counselors) said that many residents were simply not interested or had a "renter mentality" and did not want to pay more than one bill each month.

Overall, the residents were very positive about the program. They viewed the Nehemiah program as demonstrating the importance of becoming involved in community affairs and taking advantage of housing opportunity programs when they become available. If more Nehemiah housing became available, several residents said they would like to purchase houses and that they would certainly recommend Nehemiah houses to the friends.

Homebuyers' Perceptions

The homebuyers who participated in the focus groups were uniformly positive about the Nehemiah program. The Nehemiah owners thought that the houses were a great deal, and in many cases their only chance to own a home. All of the focus group participants now paid less toward monthly housing costs as homeowners than they had as renters. Homebuyers heard about the program by word of mouth, newspapers ads, television news programs, church circulars, and notices from employers. A majority of the homebuyers moved into the neighborhood from outside the neighborhood, and in some cases from outside of the city limits. They had previously lived in private rental housing that was not publicly-assisted.

The homebuyers were attracted to the Nehemiah project by the tremendous value that the Nehemiah houses and financing provided. In order to become owners, many were thus willing to move from much safer and nicer neighborhoods. As a result, owners of Nehemiah units new to the Winchester-Sandtown neighborhood tended to feel isolated from the Winchester-Sandtown community, and in some cases unwelcome. A majority of the homeowners also said that they were afraid to venture out due to the severe crime problem.

When asked whether they were satisfied with their units, the overwhelming response of the homeowners was that they were extremely happy. The homebuyers are happy with the size and quality of the homes, and most mentioned having a fenced-in yard as a plus. The homebuyers were also very pleased with the level of services received and the interest taken by the Enterprise Foundation and city government. For example, when a homeowner had a situation requiring maintenance, the problem was fixed immediately; if a problem arose concerning city services, it was quickly remedied. All of the homebuyers agreed that the financing process was conducted smoothly and that the counseling and loan application assistance was very helpful.

However, the majority of homebuyers indicated that they were ***not*** satisfied with the appearance of the surrounding area and that they feared for their safety due to violent crimes, theft, and ongoing drug activities throughout the neighborhood. Even though the majority of homebuyers felt oppressed by these surroundings, they seemed confident that eventually Winchester-Sandtown will improve. Repeatedly, homeowners stated that HUD needed to provide more funding so that Baltimore City and the Enterprise Foundation could proceed with expansion of the Nehemiah program, provide more and better services, and attract a variety of businesses into the community.

When asked if they could expect the value of their properties to increase over time, participants stated that they hoped they would, but it depended on the status of improvements planned for the Winchester-Sandtown neighborhood. Issues regarding crime, theft, and drugs resurfaced throughout the focus group sessions, indicating that these are paramount issues for the new purchasers. In spite of this, several participants said that they did not anticipate difficulty paying off the second mortgage, if and when they decided to sell the properties. Others insisted that they were not concerned with the issue, because they intended to remain in their properties for the rest of their lives.

When asked what improvements, if any, should be made to the program, most homebuyers responded that HUD, Baltimore city, and the Enterprise Foundation needed to keep the promises they had made to improve the neighborhoods by rehabilitating houses, eliminating crime, attracting new business ventures, and providing better community services. In cases where old townhouses are renovated, homeowners suggested that an entire block should be rehabilitated, instead of one or two houses on a block. This would not only improve an entire block but would also increase the value of the homes in the surrounding neighborhood. It would also eliminate abandoned buildings and the opportunity they present to drug users and criminals, to occupy them for illegal purposes.

Homebuyers also saw the need to become involved in community organizations, and clearly felt they had a responsibility to participate in activities that would improve the neighborhood, along with other actors such as HUD, the city, and Enterprise. When asked who is responsible for the future of the area, HUD, the city, Enterprise, and the homeowners were all mentioned. As one homebuyer joked, "Like they say, it's a joint venture." All of the homebuyers who participated in the focus group sessions belonged to the homebuyers' association, but some were more active than others. The homebuyers' association is making an effort to link up with the other neighborhood organizations as part of a broader coalition.

Overall, the homebuyers stated that they would like to see the program grow and that they eagerly recommend it to everyone they meet who is interested in homeownership. They were optimistic that the city would continue to focus resources on the neighborhood, and that the neighborhood would continue to improve over the next five to ten years. They thought that the value of their houses would go up as the neighborhood improved.

B.6 Assessment and Recommendations

Program Impact and Prospects

The goals of the HUD Nehemiah Grants program are to provide affordable homeownership opportunities for low- and moderate-income persons in depressed areas, to stimulate neighborhood revitalization, and to provide employment opportunities for neighborhood residents. In terms of housing production, the Baltimore Nehemiah project has met its objective. The project produced 300 units in one of the most depressed areas of Baltimore. Although the project took longer to complete than anticipated, as of this writing it is the only site—out of the 15 that received grants in 1989—to be completed. The units are clearly affordable to lower-income buyers. This affordability is the result of roughly $26,000 per unit in development subsidies (which enabled the units to be sold for only $62,500), as well as an additional $25,000 in grants and silent mortgages provided towards purchase.

The vast majority of the Baltimore units were modular new construction, delivered to the site with most systems already built in. As a result of this approach, the project created fewer jobs than some neighborhood residents would have liked.[3] Even so, Enterprise exceeded its application goal of hiring 15 neighborhood residents. Overall, the project hired at least 25 residents and also exceeded its minority subcontracting goal of placing 37 percent of total construction funds with minority subcontractors.

With respect to the program's neighborhood revitalization goals, several factors come into play. First, despite the relatively large scale of the Nehemiah project (the largest of the 1989 grantees), the 300 units represent only a drop in the bucket compared to the widespread deterioration and abandonment in the Sandtown neighborhood. The visual impact is limited to the immediate Nehemiah area. The units appear to have only a fragile foothold in the neighborhood; absent other neighborhood revitalization efforts, their impact would be doubtful. In their most pessimistic moments, the new owners can imagine themselves driven out by crime and continued decay. In their more optimistic moments, they look for the restoration of Sandtown to its former days as a center of African-American professional life in the city. It is apparent that many of the owners feel that they were ***promised*** the latter.

As described previously, Sandtown is in fact the focus of an intensive and comprehensive revitalization planning effort spearheaded by the Enterprise Foundation and the city. Although firm commitments are not completing in place, plans are being made now for the renovation of some 670 vacant properties on an expedited schedule. New initiatives in other areas—such as health, employment, and education—are also anticipated.

In terms of immediate impact, there are reports of some improvement in the area of crime. Mayor Schmoke has stated that, for the first three months of 1993, crime in Sandtown-Winchester dropped by 14 percent; several neighborhood representatives also cited reports of lower burglary and robbery rates.[4] While such changes cannot be attributed to any one factor, Major Gregory of the Western Police Station (which is located in Sandtown) acknowledged an increase in community involvement in the area. This activity started with the Nehemiah units (which initially generated a lot of calls), but has spread now that a broader range of community

---

3. The benefit, however, was saved construction interest and lower vandalism costs, since the units could be secured immediately on delivery.

4. See "It's Time to Get Real About Guns and Drugs," by Kurt Schmoke, *Washington Post Outlook,* October 3, 1993. Detailed information has been requested from the Western Station (which serves Sandtown and several other neighborhoods.)

planning activities is underway. According to Gregory, community involvement may have a direct impact on some problems (loitering or truancy, for example, if residents approach parents about their children); on a larger level, it may deter serious crime if criminals find it easier to operate someplace else. Since the construction of the Nehemiah units, two officers have been assigned to community patrol, but homebuyer reactions to the patrol are mixed. Several homeowners did note, however, that the police seem to be adapting (if slowly) to the new demands of the residents. Overwhelmingly, physical safety remains the major issue for the new buyers, some of whom described themselves as prisoners in their units.

Sponsor Concerns and Recommendations

Despite the success of Enterprise in completing the project with HUD Nehemiah grants, the sponsor has several recommendations for future efforts of this type. First, the sponsor believes that it has been caught between the conflicting program objectives and rules of Nehemiah and CDBG. In such cases, Enterprise would like to see the Nehemiah rules take precedence in the event of a conflict. Enterprise would also like to see the presale requirement dropped or reduced. Although this requirement did not pose a problem for Baltimore, Enterprise staff believe that it is very difficult for most nonprofits to meet because of their lack of sophistication. In addition, Enterprise would like to see the environmental review requirements waived and the procedure for drawing down Nehemiah funds changed. Environmental reviews were thought to be too time-consuming and not particularly useful. Drawing down funds after settlement added 30 days to the process for each sale.

Enterprise staff also proposed several statutory changes to the program:

- Make the Nehemiah loan forgivable after a number of years, since appreciation in many Nehemiah neighborhoods cannot be expected to be high enough to provide full repayment.

- Eliminate the OMB Circular A-110 requirements for competitive bidding for contractors. Enterprise says that this delayed the project for at least six months.

- Reduce the Nehemiah 10 percent downpayment requirement, to make the program more affordable for lower-income homebuyers. (Downpayments have not been a problem in Baltimore, because the state downpayment requirements took precedence and are less rigorous.)

City staff had few specific recommendations for change. However, in considering future projects of this type, one city representative suggested that the sales price be set at the market value of the unit (about $40,000 in this case), with a promissory note to prevent windfall profits in the event of early sale. This approach would reduce settlement expenses and taxes (which are now based on the full $62,500 sales price) and also help give buyers the perception of appreciation.

B.7 Conclusion

The Baltimore Nehemiah project is the first of the 15 projects that received grants in 1989 to be finished. This successful outcome is largely attributable to the experience of the developer (Enterprise), who kept the project on track and within budget, and to the tremendous financial and administrative commitment of Baltimore's city government. As described above, the city provided over $24 million in loans and grants to finance the construction of the units; the city also provided closing cost grants and forgivable third mortgages to make the units affordable to low-income purchasers. In addition, city offices made the project a priority in terms of approvals and processing, with the city team holding bi-weekly meetings (both in-house and with the developer) to ensure that problems were resolved and that the project could proceed. Underlying these factors was the political and financial clout of BUILD, which initiated the Nehemiah concept for Baltimore, made it a political reality, and also provided $2.2 in seed money to get the project going. These start-up funds (along with two $175,000 pre-development loans from the city and Enterprise) provided the initial working capital needed to get the project off the ground.

Another important factor in the Baltimore project was the success of the marketing effort, which readily drew a surplus of prospective homebuyers, despite the economic turndown that appears to have slowed sales in many other Nehemiah sites. The combined efforts of two neighborhood groups, BUILD's network of churches, and a private realty company generated a waiting list of over 1,200 pre-qualified buyers. The generous subsidies provided under the program (resulting in mortgage payments below the previous rents paid by most buyers) induced purchasers to move in spite of serious problems of neighborhood deterioration and crime. The new homebuyers are clearly anxious to see neighborhood conditions improve and should be a positive force in new efforts to expand revitalization activity in the Nehemiah neighborhood.