



Community Outlook Survey



Community Development Studies & Education Department

First Quarter 2016

Housing and neighborhood development experts identify biggest challenges and opportunities

The Federal Reserve Bank of Philadelphia's *Community Outlook Survey* (COS) monitors trends affecting the well-being of low- and moderate-income (LMI) households and communities in the Third Federal Reserve District, which encompasses Delaware, southern New Jersey, and the eastern two-thirds of Pennsylvania. Beginning in 2016, each quarterly survey focuses on one of four topical areas: housing and neighborhood development; economic development, employment, and human capital; health, wellness, and family services; and household financial stability.

The 1Q2016 COS, focusing on the theme of Housing and Neighborhood Development, was sent to participants in January 2016. Survey responses were welcomed from representatives of community-based organizations, direct service providers, and public agencies engaged in housing and neighborhood development activities in LMI communities. A total of 47 organizations responded, with 76 percent from Pennsylvania, 11 percent from New Jersey, and 13 percent from Delaware. Respondents were asked to describe the most pressing challenges in their neighborhoods in a series of open-ended questions. Qualitative research methods were used to identify key challenges and promising solutions reported by survey respondents. The findings are summarized here and include direct quotes from the respondents.

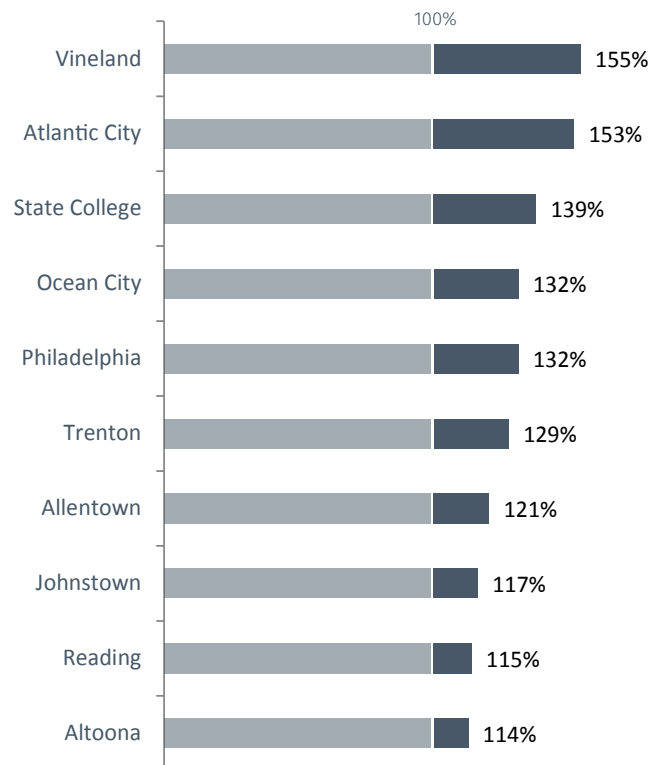
Pressing challenges

1. Renters, particularly those at the lowest end of the income scale, continue to struggle in an increasingly tight rental market.

Many respondents commented that LMI households are continuing to struggle to afford decent-quality housing in high-opportunity neighborhoods. In particular, the

Figure 1. Percent of median renter household income needed to afford a two-bedroom apartment at Fair Market Rent, 2010–2014

Selected Third District MSAs



Source: Author's calculation using U.S. Census Bureau American Community Survey 2010–2014 table B25119 and U.S. Department of Housing and Urban Development 2014 Fair Market Rents (FMRs).

FMRs are gross rent estimates that include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and Internet service. A unit is considered affordable if FMR does not consume more than 30 percent of household income.

most vulnerable subset of these renters — individuals who are extremely low income, are transitioning from homelessness, or were formerly incarcerated — were described as facing additional barriers to accessing existing units, including credit checks, inability to produce security deposits, and/or landlord bias.

Respondents consistently cited increasing pressure on the supply of affordable units and the insufficiency of household incomes as the primary drivers of these challenges. Figure 1 identifies a selection of Third District metropolitan statistical areas (MSAs) where the disconnect between housing costs and renter incomes is most severe. Respondents also indicated that there are few resources available for expanding the supply of units affordable to the lowest-income renters. Even the Low-Income Housing Tax Credit (LIHTC) program, the primary financial tool for affordable housing development, was not seen as producing sufficiently affordable units. Additionally, the growing number of senior renters was identified as an emerging challenge that may add to the demand for already scarce deeply affordable units.

As funding continues to decrease, need continues to increase, especially the need for funds for security deposits and first month's rent. Without those funds, people are not allowed to move in, and sometimes a landlord will move on to their next prospective tenant.

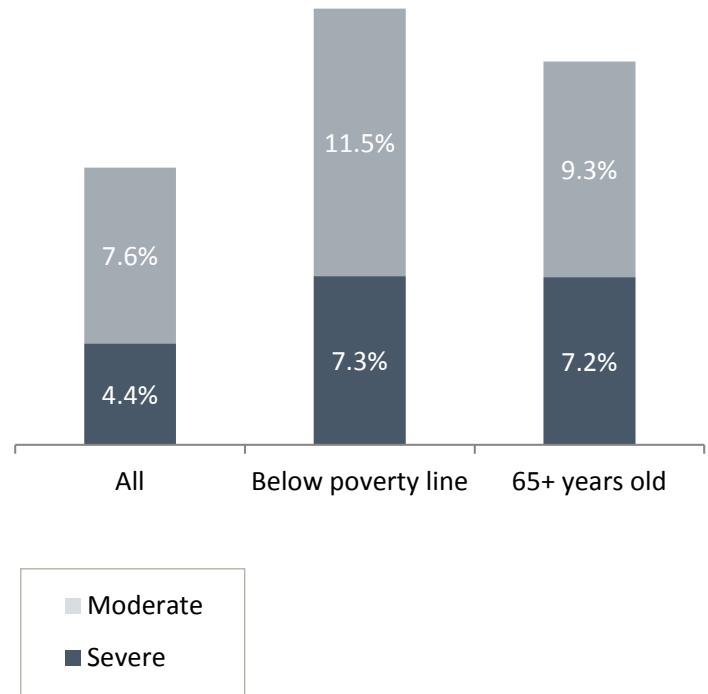
Across the board, we see rising housing costs (rental, purchase, and high need for repairs) coupled with continued low wages and high unemployment [in the area] where we work, generally exacerbating multiple housing issues.

2. Many low-income renters live in substandard housing.

In addition to affordability concerns, respondents reported that many low-income renters they serve live in substandard housing and have little recourse for addressing critical housing repair needs. Respondents noted that available funding is largely used to expand the supply of housing through new development rather than addressing the quality of existing

Figure 2. Percent of renter households reporting physical problems with their unit, 2013

Philadelphia-Camden-Wilmington MSA Central Cities



Source: U.S. Census Bureau American Housing Survey, 2013

housing units. Figure 2 illustrates the prevalence of rental housing quality issues in the core cities of the Philadelphia-Camden-Wilmington MSA in 2013. As Figure 2 illustrates, nearly one in five renter households below the poverty line and one in six senior renter households reported a moderate or severe physical problem with their unit.

Our clients' homes are consistently in disrepair — some, significantly. They have to reside in substandard housing because they cannot afford the alternative of finding a new place to live.

There are not enough affordable rental units for the low-income population of our county, so we see a lot of overcrowding and renters paying too much for substandard conditions.

Table 1. Most common mortgage application denial reasons, Third District states, 2014

	All	Income below \$35,000	LMI tracts
Debt-to-income ratio	30%	47%	30%
Credit history	22%	27%	26%
Collateral	20%	14%	22%

Source: Home Mortgage Disclosure Act (HMDA) reports, accessed via Consumer Financial Protection Bureau data tool
“LMI” is defined as tracts with a ratio of tract median family income-to-metropolitan median family income <0.8.

3. Prospective homeowners continue to have difficulty accessing mortgage credit and/or identifying affordable, decent-quality units.

Survey responses suggested that many low-income prospective homeowners face issues with all three aspects of underwriting considerations — credit history, capacity (based on their debt-to-income ratio), and collateral. Table 1 summarizes the most common denial reasons by applicant and neighborhood income, illustrating that debt-to-income ratio is the most commonly cited across the board and represents a particular barrier for LMI mortgage applicants.

Some respondents noted that tighter mortgage underwriting requirements on borrower credit history have excessively restricted the pool of qualified applicants, while others cautioned against repeating the practices that contributed to the foreclosure crisis. A number of respondents reported that existing units affordable to low-income purchasers often have significant repair issues or lack access to critical services such as transit. Some working in disinvested urban neighborhoods perceived a reluctance to extend credit for home purchases in their communities — even to otherwise qualified borrowers — over concern for the value of the collateral, posing a barrier to broader reinvestment in their neighborhoods.

We are finding families wanting to move from renting to purchasing but are finding very little safe, decent, and affordable housing.

Financial help to purchase a home is basically nonexistent in our service area. Houses that are selling for less than \$50,000 are not mortgaged by the financial institutions and sometimes end up blighted and vacant. The domino effect takes over from there.

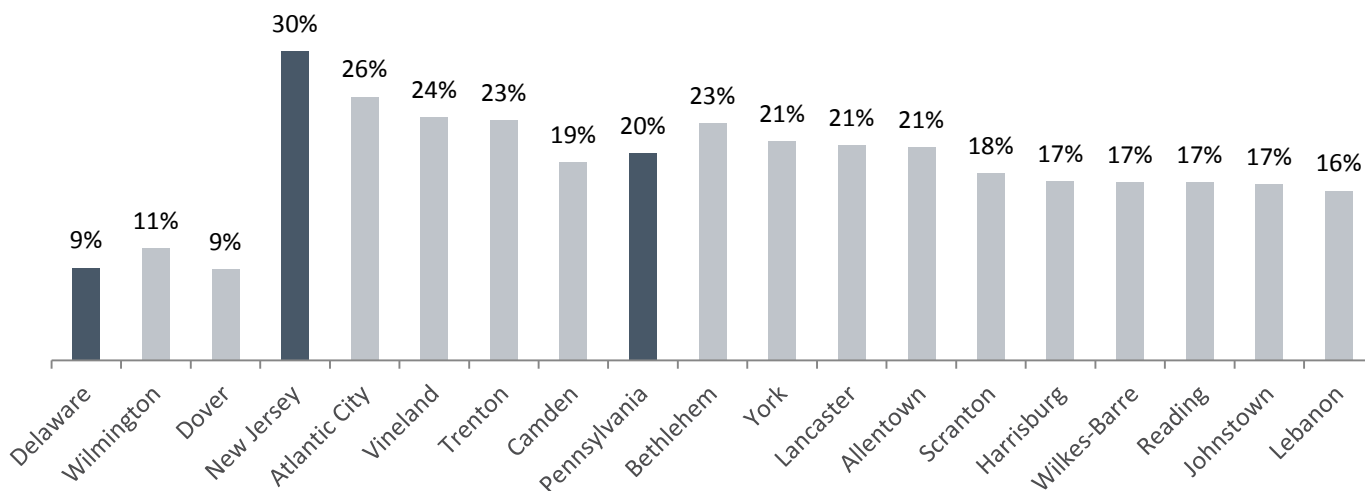
4. Covering nonmortgage housing costs and financing needed home repairs have become increasingly challenging for low-income homeowners.

There are ongoing costs to all types of housing, including homes that are owned outright. A number of respondents reported that these costs have become unmanageable for many low-income homeowners, particularly for households with uneven cash flow — such as individuals or families facing bouts of unemployment or underemployment — as well as seniors living on fixed incomes who are less able to weather cost shocks.

Property taxes were a commonly cited challenge by respondents. In older, fiscally distressed municipalities, property taxes may be an important source of revenue, but a large tax bill can push otherwise affordable homes out of reach for prospective buyers. By contrast, homeowners living in neighborhoods undergoing reinvestment will likely face higher property taxes without necessarily seeing an increase in their cash flow. Figure 3 summarizes the share of homeowner housing costs attributable to real estate taxes in a selection of Third District cities, with shares typically highest in New Jersey and lowest in Delaware.

Figure 3. Share of owner costs attributable to real estate taxes, 2010–2014

Third District States and Selected Cities



Source: Author's calculations using U.S. Census Bureau American Community Survey 2010–2014 tables B25089 and B25090

The city has the majority of what would be affordable housing for purchase but high property taxes are creating a major barrier for interested buyers. ... the city's constant struggle with revenue leaves little room for property tax relief.

Low-income homeowners who live in older units were also reported to be struggling with growing home maintenance needs. Survey respondents noted that many seniors cannot afford needed repairs but also cannot afford to move, sometimes remaining in homes with serious basic systems issues. Home disrepair was cited as a driving factor in abandonment and blight that could soon become significantly worse in neighborhoods with high concentrations of lower-income senior homeowners. Again, respondents echoed concerns about the lack of resources for addressing the quality of existing housing.

Figure 4 summarizes the prevalence of housing quality issues among owner-occupied units in the core cities of the Philadelphia-Camden-Wilmington MSA in 2013. While roughly one in seven homeowners below the poverty line reported a serious or moderate physical housing prob-

lem, the rate for seniors was lower than for homeowners overall. However, senior homeowners may have greater difficulty addressing housing quality issues, and housing unit conditions may be worse for seniors served by survey respondents than for all seniors in these cities.

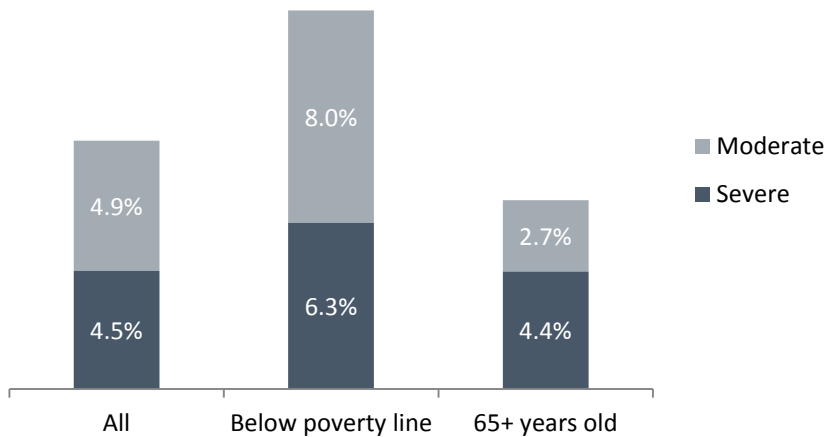
An underlying issue is that residents lack access to and/or awareness of financing and programming by which they can make repairs and improvements to their homes, and some of these programs are underfunded and overshadowed by efforts to construct new affordable housing.

5. The success of neighborhood commercial corridors is closely linked with that of their surrounding neighborhoods — and vice versa.

A number of respondents commented that since commercial corridors serve as the spines of their surrounding neighborhoods, the success of these corridors is intimately tied to that of the neighborhood as a whole. When neighborhood residents are struggling economically, there may not be sufficient aggregate demand to support local

Figure 4. Percent of homeowners reporting physical problems with their unit, 2013

Philadelphia-Camden-Wilmington MSA Central Cities



Source: U.S. Census Bureau American Housing Survey, 2013

1. Stabilizing existing low-income homeowners in their homes

Many survey respondents noted that the most promising programs are those that seek to stabilize existing low-income homeowners in their homes. Examples given of such programs included the Healthy Rowhouse Project in Philadelphia, which supports needed home repairs to aging owner-occupied units, as well as the city's Longtime Owner Occupants Program (LOOP), which helps mitigate steep increases in tax bills as home values rise. Foreclosure diversion programs were mentioned as a key tool for keeping low-income home-

owners in their homes, yet the future of some of these programs is uncertain.

We are hopeful that new attention is being paid to home preservation and that this becomes a funding priority for the city rather than the pure focus on low-income rental, which seems to have dominated the housing landscape for a while.

2. Improved coordination of service providers

Respondents noted that increased collaboration between sectors and among service providers could improve the conditions in many neighborhoods. Holistic approaches to community development that look beyond housing to a comprehensive strategy engaging local schools, community facilities, small businesses, and transportation were noted as having transformational potential. Additionally, better coordination among service providers at the point of entry for services was offered as a strategy that could yield vast improvements for individuals, families, and communities.

businesses. Likewise, when commercial corridors become disinvested, it has significant implications for neighborhood quality of life. Respondents working in older neighborhood commercial corridors or small city downtowns noted that they continue to struggle with vacancy and the use of retail space for nonretail activities that do not attract customers to the corridor.

The city's market weakness continues to discourage investment in any number of prominent vacant buildings and lots, and the ongoing decline of traditional business anchors like regional banks, newspapers, etc. makes things worse.

If the commercial corridors are not revitalized, then the surrounding neighborhoods will feel the effects and continue to decline instead of enrich.

Opportunities

When asked, "Over the past year, have you seen any promising trends or changes?" the following were cited as promising opportunities for improvement by survey respondents.

Comprehensive community renewal and revitalization is the change agent but will require non-traditional partnerships to be developed. Housing stakeholders working in concert with education, health care, and business will allow for a structured improvement that is working in tandem with other local goals.

3. Opportunities to work with anchor institutions

Some respondents noted that their communities have begun or continue to leverage resources from local colleges and universities who can serve as strong partners in revitalization efforts. Furthermore, there is a growing understanding that health outcomes are severely impacted by nonmedical determinants of health such as access to healthy food and safe and affordable housing. Intersections between preventive care interventions and community development create an opportunity to also engage health-care institutions as potential partners and funders in housing and neighborhood development work.

I think positive connections between the powerful anchor institutions (Penn, Drexel, etc.) and the surrounding communities continue to grow. This is obviously an ongoing trend that has been occurring for decades but one that should continue to be nourished, studied, and tempered to make

sure that residents and local businesses have access to opportunities and feel included in the growth and decision-making processes.

4. Declining public funding is driving a search for new, more flexible resources.

While respondents voiced concern over the shrinking availability of resources for meeting their communities' needs, many were exploring opportunities for new, more flexible funding tools to be used to fill this resource gap. Some cited tools and strategies, such as social impact bonds and mixed-income housing development, as opportunities to leverage private capital toward community development goals. Several respondents noted that new ways of financing should aim to use public funds to catalyze self-sustaining models.

We are finding that many sources of public dollars are becoming increasingly difficult to work with for neighborhood development purposes. We are trying to shift away from some of these funds and to drive different types of flexible revenue that will allow us to be much more proactive and creative in our approach to housing and community development activities in northeastern Pennsylvania.

Digging deeper: More resources from CDS&E

For a more in-depth look at topics discussed in this report, see the following publications from the Community Development Studies & Education Department of the Federal Reserve Bank of Philadelphia:

- “Affordability and Availability of Rental Housing in the Third Federal Reserve District: 2015,” available at www.philadelphiafed.org/-/media/community-development/publications/cascade-focus/cascade-focus_4.pdf?la=en
- “Beyond the Numbers: A Qualitative Exploration of Affordability and Availability of Rental Housing in the Third Federal Reserve District: 2015,” available at www.philadelphiafed.org/-/media/community-development/publications/cascade-focus/cascade-focus_4-btn.pdf?la=en
- “A Practitioner’s Summary: Gentrification and Residential Mobility in Philadelphia,” available at https://www.philadelphiafed.org/-/media/community-development/publications/discussion-papers/discussion-paper_a-practitioners-summary.pdf?la=en
- “Fiscal Stress in the Small Postindustrial City: Causes, Consequences, and Implications for Community Development,” available at www.philadelphiafed.org/-/media/community-development/publications/special-reports/fiscalstress.pdf?la=en
- “The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills,” available at www.philadelphiafed.org/-/media/community-development/homeownership-counseling-study/2014/homeownership-counseling-study-042014.pdf?la=en

Authors



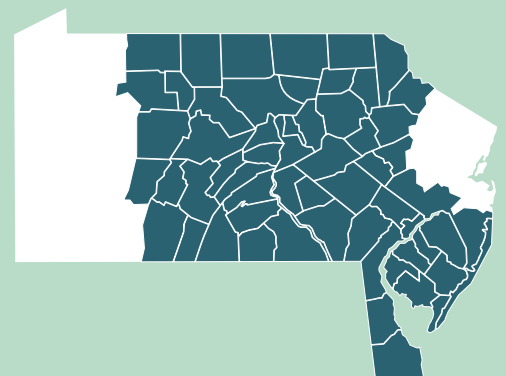
Eileen Divringi is a community development research analyst in the Community Development Studies & Education Department at the Federal Reserve Bank of Philadelphia.



Noelle Baldini is a community engagement associate in the Community Development Studies & Education Department at the Federal Reserve Bank of Philadelphia.

The Third Federal Reserve District

The Federal Reserve Bank of Philadelphia serves the Third District, which covers eastern Pennsylvania, southern New Jersey, and Delaware. The Bank’s Community Development Studies & Education Department supports the Federal Reserve System’s economic growth objectives by promoting community development in low- and moderate-income communities and fair and impartial access to credit in underserved markets.





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Any questions, concerns, or comments about the *Community Outlook Survey* should be addressed to Eileen Divringi at phil.cosurvey@phil.frb.org.