# Buffalo Housing Opportunity Strategy

**2017**

Prepared by czb LLC

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**2017**

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# How to Use This Housing Opportunity Strategy

**A message from czb**

Buffalo is one of America's great cities – and one of its most challenged. Important neighborhood and housing issues have gone unaddressed or poorly addressed for decades, creating an environment today where a resurgence of civic pride, development activity, and vitality in parts of Buffalo are juxtaposed with some of this country's largest concentrations of distress and neglect. It will take patience, focus, and collaboration to confront these challenges.

It will also require a clear understanding of the housing problems Buffalo is trying to solve, how those problems differ between markets within the city, and how those differences should influence the actions of the city and others who intervene on behalf of healthier and more inclusive neighborhoods. The analysis in this document provides a factual basis for making such distinctions and a framework for decision-making in a context where resources are dwarfed by the problems that need solving and where all public investments must be thoughtful and strategic to have a measurably meaningful impact.

As a decision-making tool, this document is not a prescriptive, inflexible to-do list designed to be followed without modification. Instead, it has been developed with the assumption that real estate markets, demand, pricing, risk tolerance by the private sector, and public sector fiscal capacity will all be constantly shifting, and so too should intervention actions so long as they hew to a set of tested principles suited for generally soft markets.

Having analyzed and developed strategies for all types of housing markets around the United States – from some of the tightest and most expensive markets, to those most beset by vacancy and abandonment – we feel it is critical for the Buffalo community to understand that the city's housing market bears few if any similarities to the Bay Area, Seattle, Portland, Boston, or even Chicago. Rather, Buffalo's housing market challenges are analogous to those facing Cleveland, Erie, Rochester, Milwaukee, and Detroit. The problems to solve in the latter group are very different from the former – and housing policy must take that into account.

This document consists of an introduction and four parts, all designed to create a fact-based foundation for thinking and making decisions about a range of housing and neighborhood-related issues. These include:

**Introduction:** What does "housing opportunity" mean in Buffalo, and what elements are needed to realistically achieve it? Opportunity, affordability, and market conditions are defined.

**Part 1: Buffalo's Housing Market Today** — This primer on the city's housing market distills a complex market down to three fundamental findings that clarify the city's challenges: (1) Buffalo's recovery is real but highly confined — a market that is still soft and suffering from decades of deferred maintenance; (2) low-incomes are the root cause of affordability problems in Buffalo — not housing costs, which remain among the lowest in the country; and (3) Buffalo's history of inequality is a significant source of instability in its housing market and threatens a durable recovery.

**Part 2: Neighborhood-level Housing Conditions and Trends** — Five sub-market types describe the range of market and neighborhood conditions within Buffalo today. This part provides an overview of these five types, explores the implications that conditions in each type have on decision-making in an environment with limited resources, and presents ways of gauging the positive or negative impacts of current housing interventions. Dividing Buffalo into five types of submarkets helps in the work of deciding what to do where. In some parts of the city, more affordability will be necessary. In other parts of Buffalo, more private sector risk-taking is needed. In still others, a more patient strategy of preparing the area for development potential many years (if not decades) in the future is needed.

**Part 3: Principles to Guide Strategy and Decision-Making** — On what basis should decisions be made when it comes to resource allocation and policy development? This part presents five principles to guide action in Buffalo's complex housing market, as well as outcomes to pursue in each of the city's five market types.

**Part 4: A Housing and Neighborhood Toolkit for Buffalo** — Numerous tools are currently being used to intervene in Buffalo's housing market. But why? As the city considers which tools to maintain, which to adjust, and which to invent, Part 4 provides guidance on how to think about interventions and how to align them with the city's market conditions, principles and strategies.

## INTRODUCTION

# Based on recent trends, it is clear that Buffalo's housing market has begun to stabilize after decades of population loss experienced on a similar scale by few other cities.

This progress is constrained, however, by the fact that very few neighborhoods exhibit signs of strong market demand – with competition stimulating private investment at a level that expands the supply and improves the quality of housing. And in those few areas, recent housing developments have almost always required public subsidies to overcome high development costs and the market's limited willingness to pay rents that would completely cover those costs.

However fragile, growing demand in the most sought-after neighborhoods is translating into rising prices and rents after years of stagnation. These increases make access to housing in those neighborhoods difficult for many households – limiting their access to vibrant and revitalized areas and their sense of inclusion in Buffalo's newfound prosperity. At a time of escalating economic and residential segregation across the country, many communities are grappling with the same problem. How should Buffalo?

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**What Buffalo seeks is a full, healthy housing ladder** — in other words, a market that gives households at all income levels mobility and options.

**More rungs on the housing ladder mean that more households find a good fit – the right size unit at the right price in the right neighborhood**

## Achieving a healthy and sustainable housing ladder requires coordinated action on **two fronts:**

1

**The first is having housing options that are sufficient to compete for and retain households that can choose to live anywhere in the region.** For years, such households were choosing Amherst, Lancaster, Hamburg, and other communities by a wide margin over Buffalo's neighborhoods — and, to a large degree, they still are. But as their numbers rebound in the city, income generated by their property taxes strengthens the city's fiscal capacity to invest in parks, streets, schools, and to catch up on deferred maintenance. Importantly, these households have the discretionary income needed to drive growth in the city's commercial districts and to refurbish and update the city's private housing stock. Without middle income households able and willing to make continual reinvestments in their homes, Buffalo cannot succeed as a city.

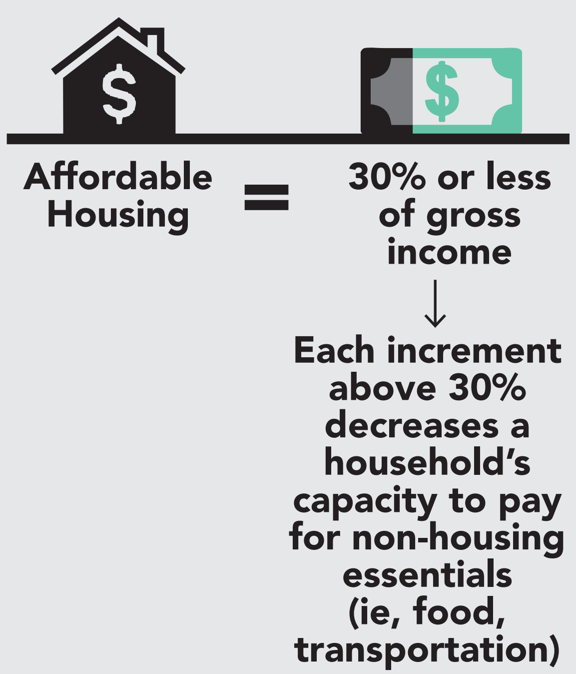
2

**The second is realizing community values around inclusion, social equity, and opportunity.** It materializes not from stifling or preventing the first front, but from channeling the value it creates into resources and tools that facilitate inclusion. Without being inclusive, Buffalo will be unable to come together as a community.

Making progress on both fronts requires a decision-making framework that is guided by an understanding of market conditions and supported by a conversation about what the community wants to accomplish, what it will cost, and what it is willing to invest to make it happen.

# DEFINITIONS AND CONCEPTS

For the purpose of clarity, two prevailing notions are present in this document. The first is that affordable housing is housing that is affordable, no matter who we are talking about.



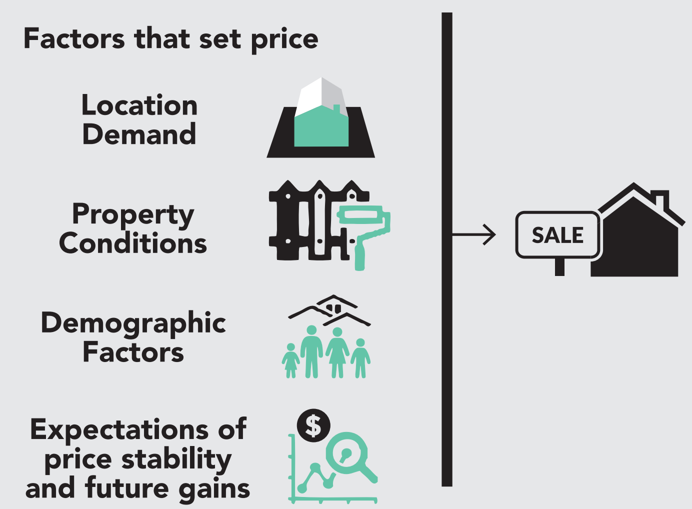

Housing — rental or owner-occupied — that does not cost the resident more than 30% of their gross monthly income is considered affordable. For example, a $900 per month apartment is affordable to a renter who has an income of no less than $36,000 per year. Similarly, a $900 per month mortgage payment (PITI) is affordable to a buyer who has an income of no less than $36,000 per year.

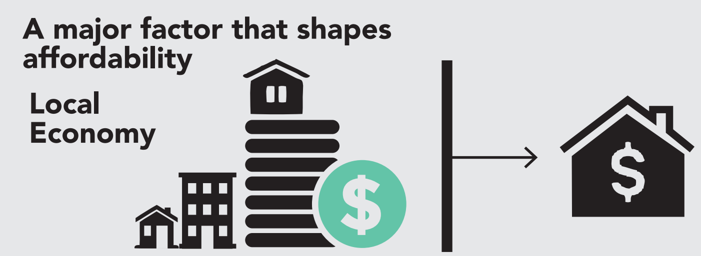
Where does the 30% ceiling for affordability come from? From the early 20th century to the advent of FHA and afterwards, lenders found that when buyers had monthly housing costs in excess of 30% of their monthly income, default tendencies rose, regardless of amortization schedules. In addition to the loan-to-value ratio as a skin-in-the-game determinant of default or performance, the 30% threshold proved to have enduring predictive value. Each increment above 30% decreases a household's capacity to pay for non-housing essentials; faced with a choice of food or clothing or transportation on one hand versus rent, households begin to juggle, rent payments become late, and a buyer's default probability rises.

So, when a household's rent exceeds 30% of its gross monthly income, that household is considered housing cost burdened. While households at any income range can be housing cost burdened, public policies that assist households with securing affordable housing typically focus on those with incomes at or below the median income for a given region. At lower incomes, cost burden is felt more acutely.

**Median income describes the level of earnings in a region at which half of households earn more and half of households earn less. This measure is often used in determining housing affordability or program eligibility.*

The second is that the housing that is affordable is affordable for specific reasons that have to do with the local market and the local economy and how the two fit together.




Location demand, property conditions, expectations of price stability and future gains, and demographic factors — who and what is where — sets price. Sometimes, a property may be in good condition but the land on which the housing sits is not very desirable, so demand to own it and possibly redevelop it is low, as is the resulting price. Low demand generally equates with low cost or high affordability. Other times, a property was built inexpensively and the debt load is nominal, enabling low rents. Sometimes the property is in substandard condition, and as such, demand is very low, so prices are low.

The local economy is also a major factor that shapes affordability. For example, it is not hard to find an affordable home in a struggling place like Saginaw, Michigan, where a single wage earner making $9 an hour can afford to buy a home at median value. And it is easier for employees to participate in any housing market without government subsidy when employers pay a "housing wage" – the hourly wage a family must earn to afford a modest two-bedroom apartment in the private market.

PART 1

# Buffalo's Housing Market Today

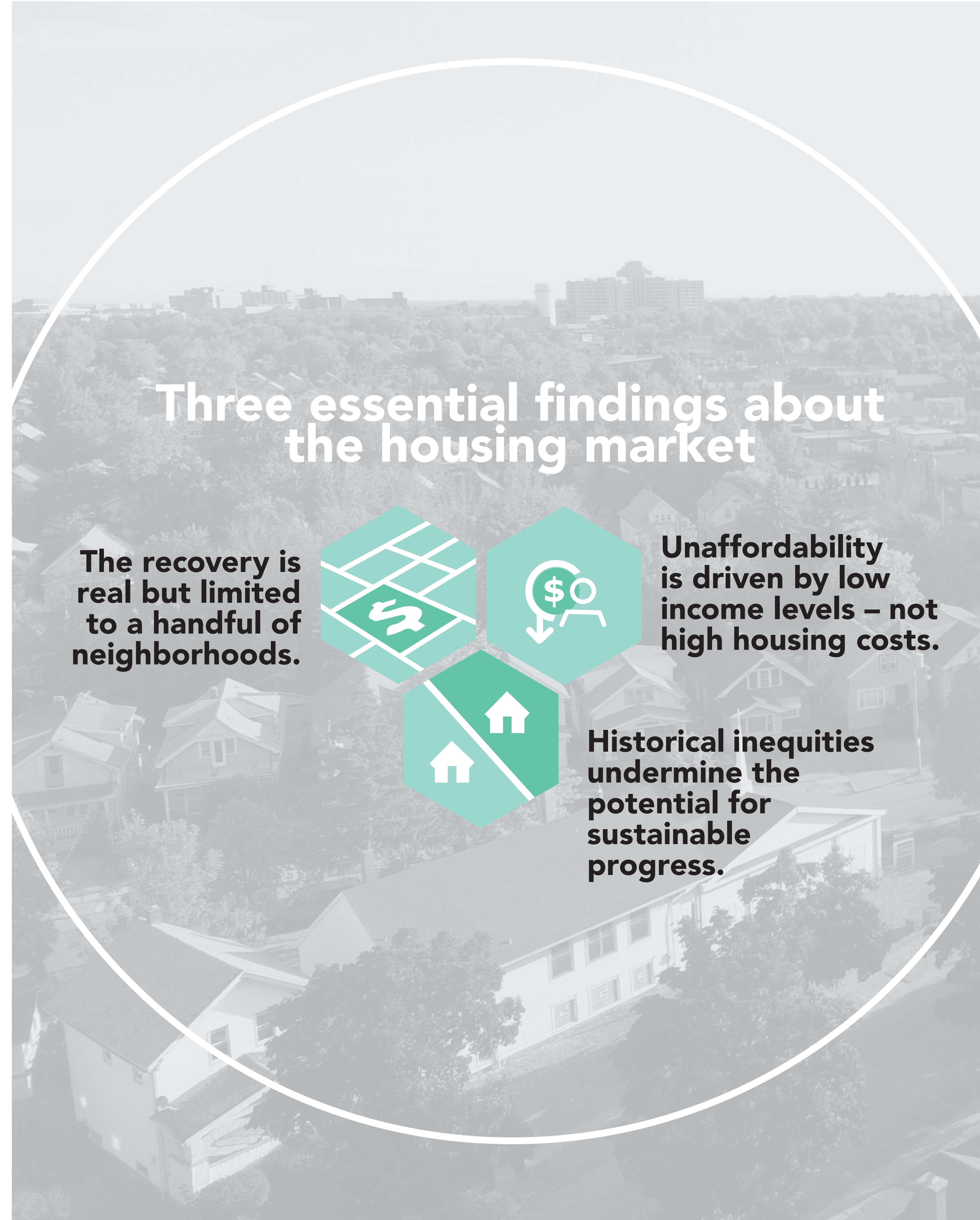
## The narrative surrounding Buffalo's housing market in 2017 is marked by extremes that can be difficult to reconcile.

On the one hand, there is the bullishness about price appreciation, new development, and an influx of motivated buyers and renters, all of which are occurring at levels not seen in years. On the other hand, there are thousands of deteriorating or empty houses and apartments and tens of thousands of households that struggle to improve their homes or pay the rent.

That both storylines are plainly visible to city residents and are occurring parallel to one another — and often in close proximity — can contribute to confusion and suspicion around housing development and policy, especially in the wake of decades of inequity. To some extent, this has provoked competing explanations about what has been happening, why, and how to move towards a housing market less divided by these disparities.

An examination of market and socioeconomic data for this Housing Opportunity Strategy has revealed three overarching findings that help clarify key patterns and trends in the city while giving definition to problems that need to be recognized by housing and neighborhood policy.





# The recovery is real but limited to a handful of neighborhoods.

A legitimate turnaround has been occurring in the city's housing market in recent years, with a recovery in demand having a clear impact on housing investment by homeowners and landlords in certain parts of the city. But those parts are more limited than conventional wisdom might assume.

In reality, only a small portion of the city's neighborhoods have made noteworthy and durable gains in recent years. And in areas where demand is genuinely strong, a variety of incentives and subsidies remain crucial to the feasibility of market-rate housing development. Consider:

- Among 50 neighborhood-level markets analyzed for this Housing Opportunity Strategy, only 13 are truly competitive markets where demand is stimulating healthy levels of investment and reinvestment. (See market classifications in Part 2.)

- Of 70,500 residential properties assessed through a citywide field survey for signs of investment and disinvestment, only **23% were deemed to be in excellent or good condition** — with evident pride and no visible signs of deferred maintenance. Of these properties, **nearly half were concentrated in the sub-markets where demand is strong.**

**The problem to solve is *a housing market that is still generally soft — and a fragile recovery that must continue* for investment and reinvestment to spread.**

## Exterior Condition **Field Survey** of Residential Structures

To gauge the current physical condition of each residential structure, a **field survey** was conducted in late 2016. Scorers rated each property on the following 1 to 5 scale:

1 **EXCELLENT**
*Top of the market, "staying on top of the details"*

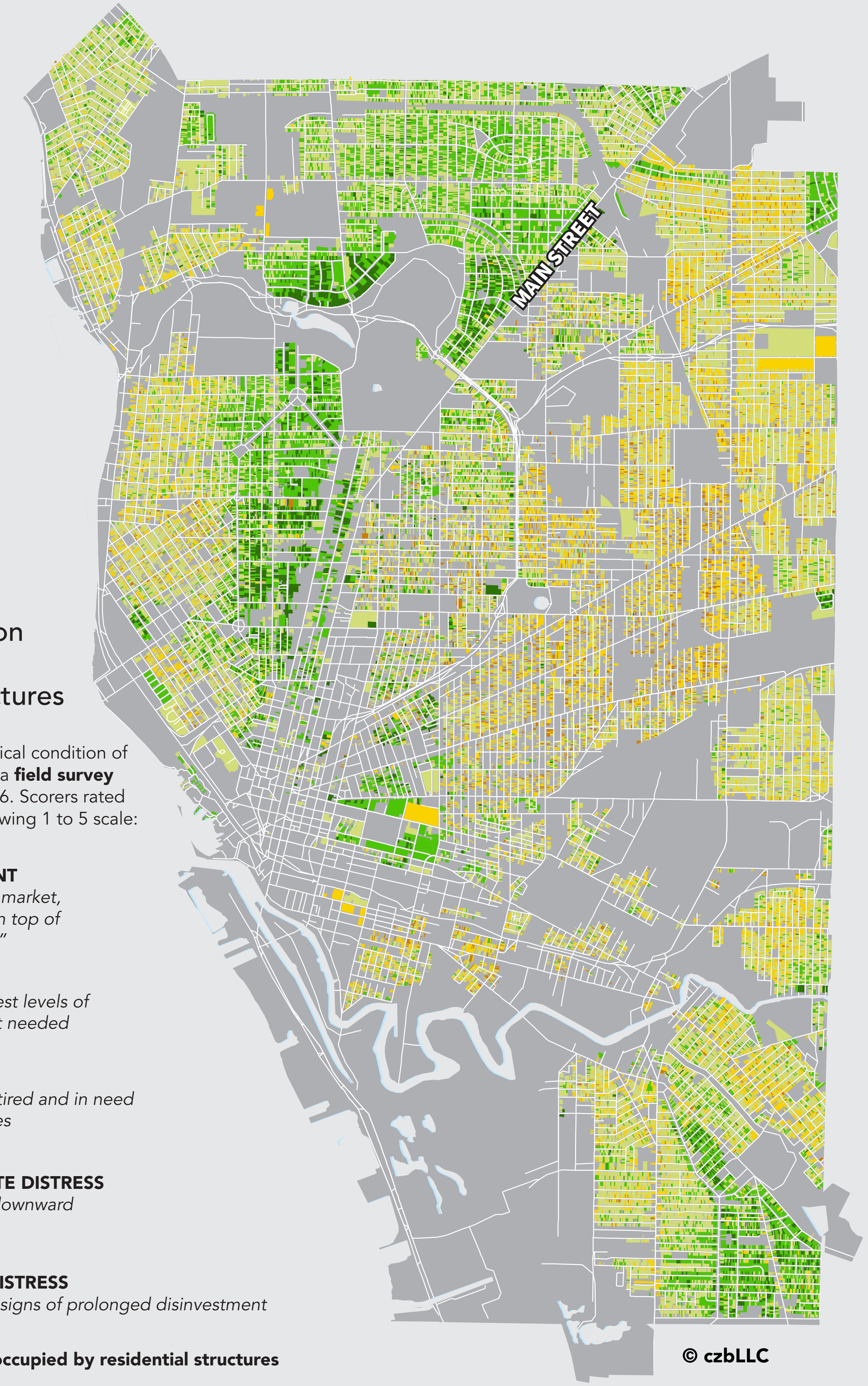
2 **GOOD**
*Only modest levels of investment needed*

3 **AVERAGE**
*Solid, but tired and in need of upgrades*

4 **MODERATE DISTRESS**
*Trending downward*

5 **SEVERE DISTRESS**
*Numerous signs of prolonged disinvestment*

**Land not occupied by residential structures**



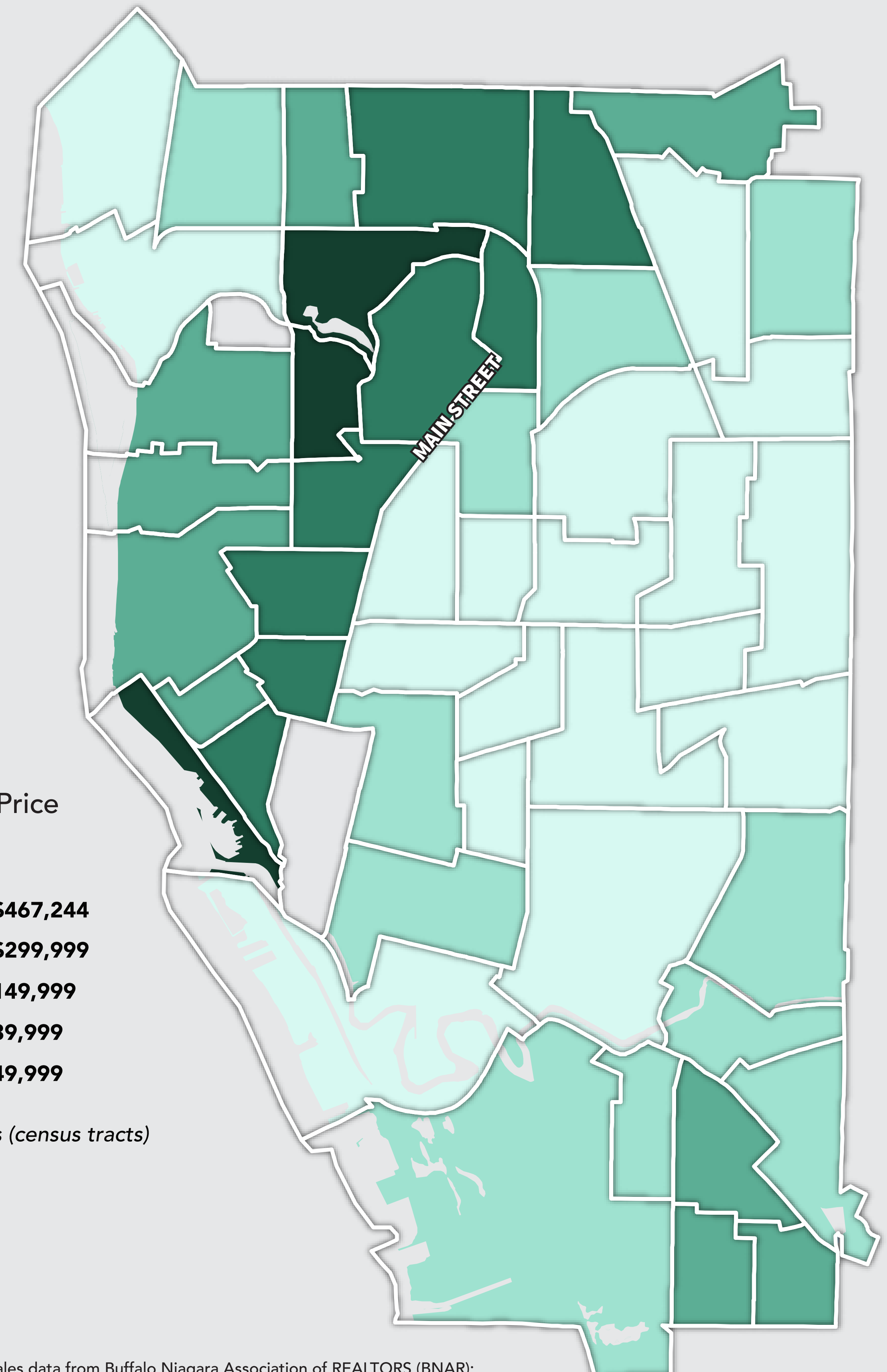
# The recovery is real but limited to a handful of neighborhoods.

- In 29 of the 50 census tract sub-markets analyzed, the average price for MLS sales between 2014 and 2016 was below $90,000 — in 18 of these markets, average prices were below $50,000. **In only 11 markets did the average price exceed $150,000.**
- The citywide average price for single family MLS sales between 2014 and 2016 was $114,900 — only two-thirds of the average for the remainder of Erie County during the same period ($175,500), one of many indicators that the focus of housing investment and development in Erie County remains in the suburbs. Between 2010 and 2016, the city accounted for only 9% of housing permits issued in Erie County (including single and multi-family units) — well below the city's share of the county's population.
- An average-sized rental unit developed in Buffalo without any form of subsidy is estimated to require rent of at least $1,500 per month to be financially viable — but only 2.3% of Buffalo's renting households currently pay at or above that level. Consequently, the vast majority of market-rate rental developments since 2010 have relied on one or a combination of subsidies to lower expenses and achieve rents that the market will bear. These have included such tools as the 485-a property tax exemption, state and federal historic preservation tax credits, ECIDA adaptive reuse incentives, the Better Buffalo Fund, brownfield tax credits, and others. An analysis of 96 market-rate multi-family developments that were completed or under construction between 2010 and 2015 shows that 81 of the projects received support from one or more of these subsidies. And with few incentives for new construction, recent development has focused on the conversion of existing — largely historic — structures.

Average Sale Price (2014-2016)

- **$300,000 - $467,244**
- **$150,000 - $299,999**
- **$90,000 - $149,999**
- **$50,000 - $89,999**
- **$24,021 - $49,999**

*Sub-markets (census tracts)*




Source: czb analysis of sales data from Buffalo Niagara Association of REALTORS (BNAR); price intervals based on a natural break distribution.

# Unaffordability is driven by low income levels – not high housing costs.

In many cities that are both growing and constrained by geography, genuinely high housing costs are a threat to both low- and moderate-income households. In such cities, high cost is the primary problem for housing policy to address.

This is not the case in Buffalo, which remains one of the nation's least expensive cities to rent or own a home.

**The problem to solve is *persistent and concentrated poverty* — something that housing policy can influence but cannot solve on its own.**

- The median value of all owner-occupied homes in Buffalo was $68,800 in 2015 — **making the typical Buffalo home affordable to a household making as little as $23,000 per year.**
- With a median gross rent of $699 in 2015, the average Buffalo apartment is affordable to a household making $28,000 per year. This marks **Buffalo as a market where it is less expensive to make a mortgage payment on a typical house** — especially when a home loan subsidy is involved — **than it is to rent a typical apartment on the private market.**
- With a median home value to median household income ratio of just 2.1 (compared to a national average of 3.4, and ratios above 7.0 in Boston, New York, and San Francisco) **Buffalo is more affordable than most of its upstate and Great Lakes peers** and has a ratio closer to those found in Flint, MI, or Youngstown, OH.

Rather than high housing costs, unaffordability in Buffalo is driven by low incomes. For the 37,000 households in the city that live on less than $20,000 per year, low incomes make it difficult to access and maintain quality housing in healthy neighborhoods.

For 42,000 city residents, or 16.5% of the population, disabilities add another dimension to the search for housing opportunities – especially the 17,700 individuals with disabilities between the ages of 18 and 64 who are not in the labor force and account for a significant share of households at the lower end of the income ladder. For them, affordability and accessibility are linked challenges to overcome in a city with one of the country's oldest housing stocks.

## Renting and Purchasing Capacity of Buffalo Households, 2015

| INCOME | HOUSEHOLDS % | HOUSEHOLDS # | MAXIMUM AFFORDABLE RENT RANGE | HOME PURCHASING POWER |
|---|---|---|---|---|
| *$100,000+* | 10% | 11,000 | *$2,500+* | $320,000+ |
| *$75,000 - $99,999* | 8% | 9,000 | *$1,875 - $2,500* | $240,000 - $320,000 |
| *$50,000 - $74,999* | 15% | 16,500 | *$1,250 - $1,875* | $160,000 - $240,000 |
| *$35,000 - $49,999* | 14% | 15,000 | *$875 - $1,250* | $112,000 - $160,000 |
| *$20,000 - $34,999* | 19% | 21,000 | *$500 - $875* | $64,000 - $112,000 |
| *$0 - $19,999* | 34% | 37,200 | *$0 - $500* | $0 - $64,000 |

Source: czb analysis of data from U.S. Census Bureau.

# Historical inequities undermine the potential for sustainable progress

The city is sharply divided by race and class, as well as the sense of inclusion in its future growth.

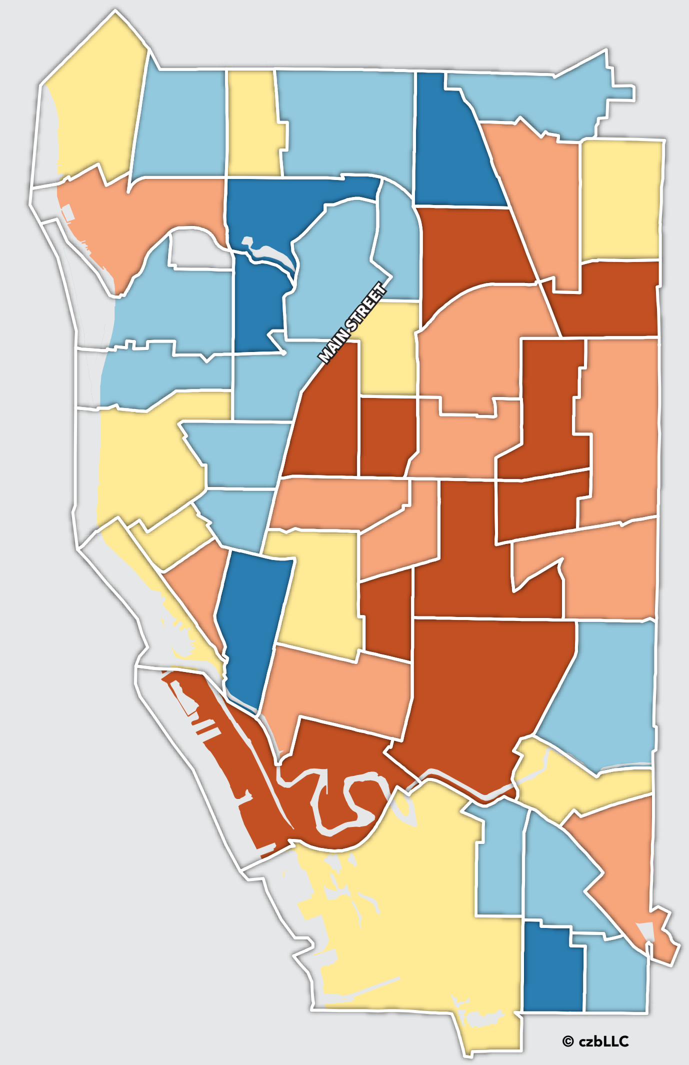
**The problem to solve is**
***a deeply segregated city.***

This divide is reflected in housing and residential patterns in the city, which themselves are a reflection of an earlier prosperity that was defined by great wealth and high levels of segregation and exclusion. This was exacerbated during the postwar years when the relentless suburbanization of the white middle class both mirrored and reinforced earlier divisions.

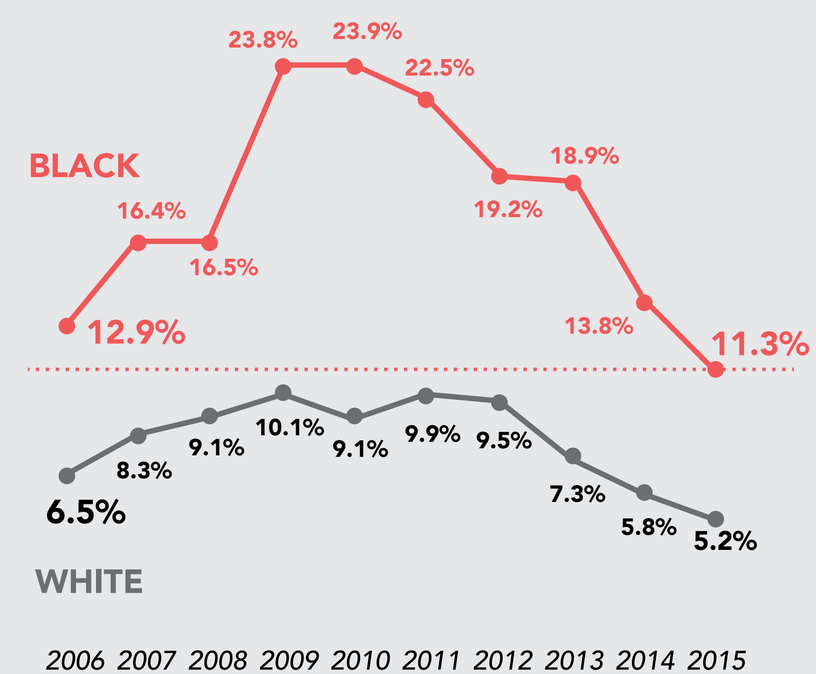
There is recognition, though, that for a new prosperity to fully emerge and be sustainable, these patterns of exclusion cannot continue. **Erie County's dissimilarity index score of 64.9 — a measurement of residential segregation where 60 is considered extreme — is one of the highest in the country** and is echoed by segregation within the city's limits. These residential patterns extend to economic patterns, as expressed by an unemployment rate among African-Americans in Buffalo that has been double the rate for whites since 2006 regardless of the broader economic climate.

**Buffalo Neighborhoods Unemployment Rate (2015)**

- 2.1% - 4.7%
- 4.8% - 8.7%
- 8.8% - 13%
- 13.1% - 17.8%
- 17.9% - 30.6%
- *Sub-markets*




**Unemployment rate in Buffalo by race, 2006-2015**




Source: czb analysis of data from U.S. Census Bureau.

***Economic dislocation has profoundly affected all of Buffalo; the Great Recession imposed great hardship on the city. But the spatial impact on African Americans has been especially harsh. Job loss in the black community in Buffalo has been negatively compounded in ways far more detrimental than in the white community. From 2009-2011, roughly one in five African American households dealt with unemployment. When this reality occurs in a residentially segregated city like Buffalo, whole streets are disproportionately impacted.***

PART 2

# Neighborhood-level Housing Conditions and Trends

## One of the biggest challenges to the development of effective housing strategies and policies in Buffalo is the sheer range in neighborhood and market conditions.

## Five Market Types

Over its 40 square miles, the city contains blocks where homes and condos are valued at $500,000 or more, blocks that are dominated by vacant lots and abandoned houses, and everything between these extremes. With such variability, how does the city make sense of neighborhood conditions in a way that brings clarity to current and emerging problems while pointing to appropriate interventions?

As part of this Housing Opportunity Strategy, a variety of socioeconomic and housing market indicators were combined and analyzed at the census tract level with the goal of identifying distinct sub-markets — which could then be used to describe groups of neighborhoods with similar market characteristics.

This analysis revealed five distinct market types. The socioeconomic and physical conditions in each are summarized on subsequent pages, but the fundamental forces that shape housing investments and transactions in each market can be described as follows:

- **Highest Demand:** The number of households that want to live in this market exceeds the affordable supply. A sustained level of strong demand is providing a stimulus for new investment. Confidence in the value of real estate is high.
- **Moderate Demand:** The number of households that want to live in this market is generally in balance with supply, but property conditions and location have a significant influence on pricing and affordability.
- **Soft Demand:** The number of households that want to live in this market is generally in balance with supply, but housing quality, neighborhood conditions, and low incomes place a ceiling on demand that dampens investment by current property owners. Proximity to stronger markets will mean rising levels of demand for some of these neighborhoods, but many are vulnerable to further disinvestment.
- **Low Demand:** Fewer households want to live in this market than the current supply accommodates, resulting in low prices, low levels of reinvestment, and high concentrations of low-income households with few other choices.
- **Lowest Demand:** A prolonged surplus of supply over demand – and the resulting decades of deferred maintenance and disinvestment – has left half of all residential parcels without structures. In many respects, the housing market has collapsed and is unresponsive to stimulation or correction.

## Housing Market Demand

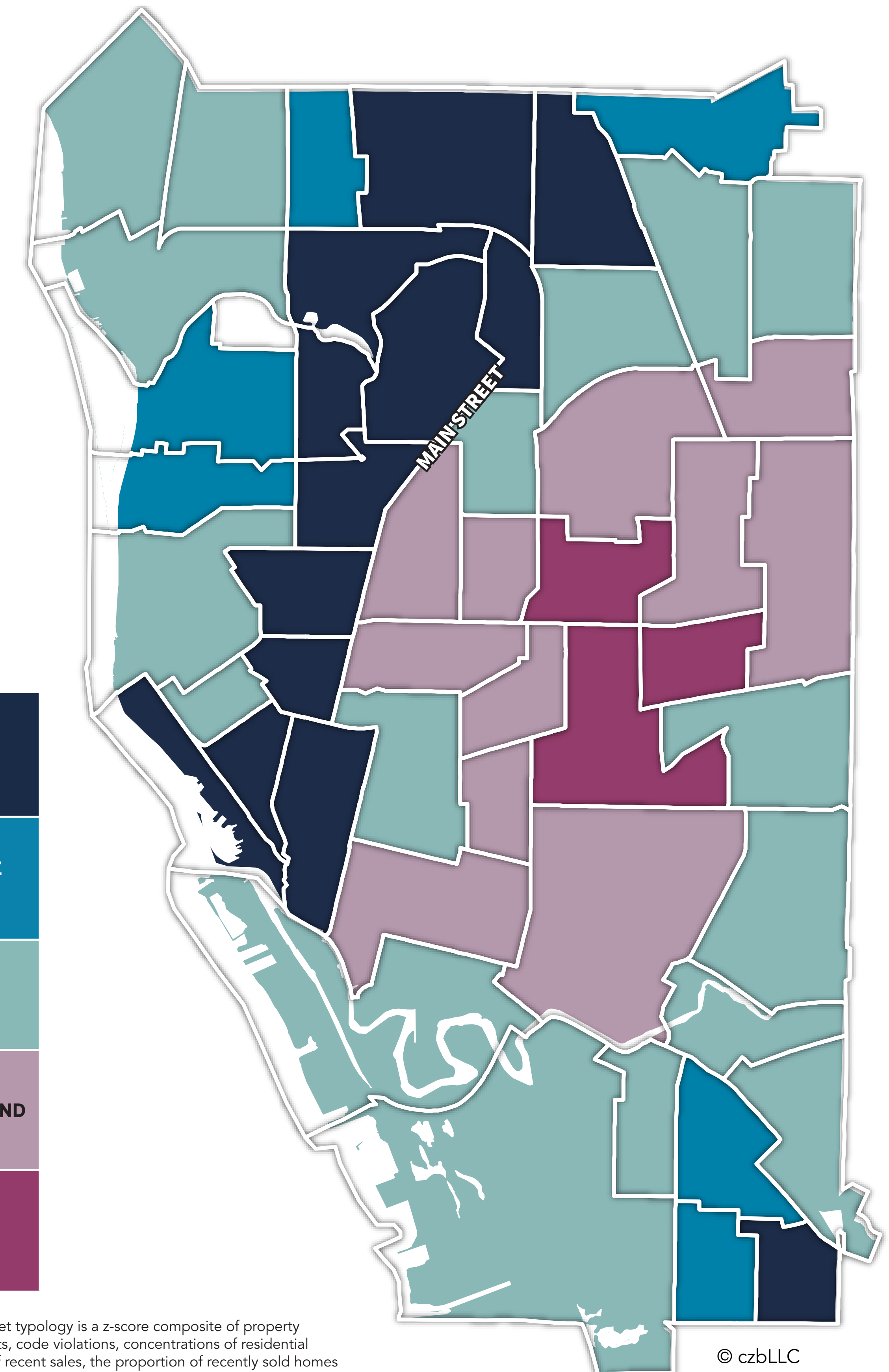
1 HIGHEST DEMAND

2 MODERATE DEMAND

3 SOFT DEMAND

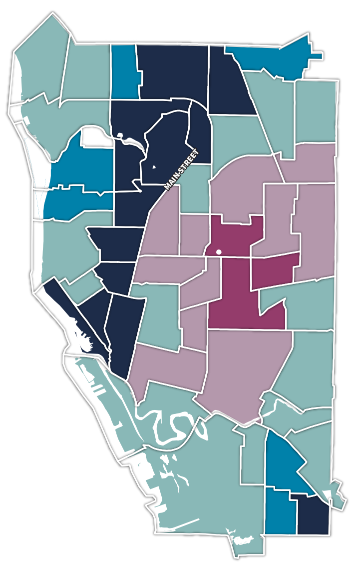
4 LOW DEMAND

5 LOWEST DEMAND




Note: This demand-based market typology is a z-score composite of property conditions, improvement permits, code violations, concentrations of residential vacant lots, the average price of recent sales, the proportion of recently sold homes sold to owner-occupants, median gross rent, median renter income, median home value, median owner income, and population change.

# Key Sub-Market Characteristics

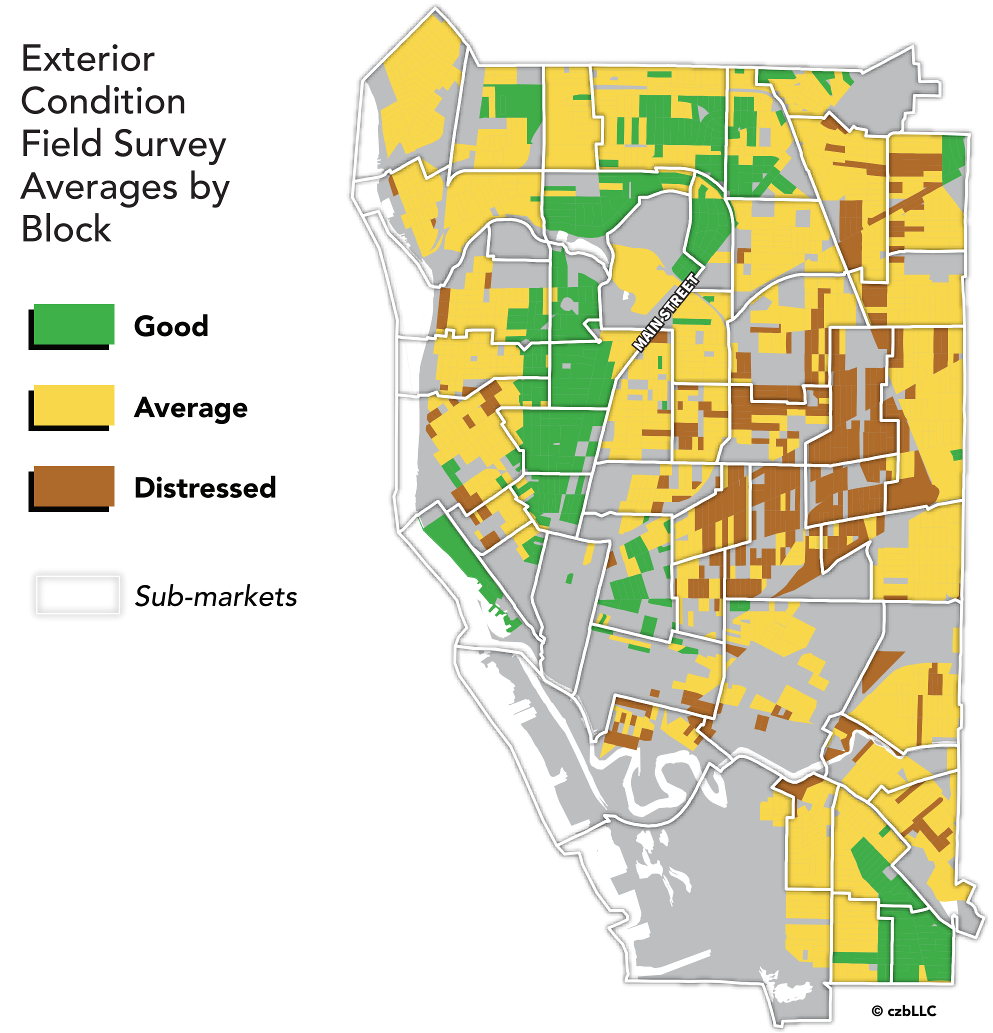


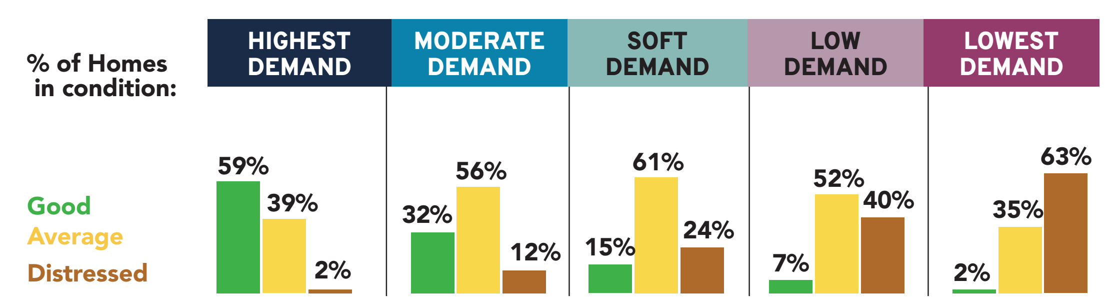
| | Population | share of city's total population | % change since 1980 | % of city's white population | % of city's black population |
|---|---|---|---|---|---|
| HIGHEST DEMAND | 57,943 | 23% | -11% | 35% | 9% |
| MODERATE DEMAND | 36,418 | 14% | -19% | 19% | 6% |
| SOFT DEMAND | 106,370 | 41% | -20% | 39% | 40% |
| LOW DEMAND | 47,188 | 18% | -44% | 6% | 39% |
| LOWEST DEMAND | 9,678 | 4% | -62% | 1% | 7% |

| | Average Sale Price, 2014-16 | Median Sale Price, 2014-16 | % of homes sold to owner occupants |
|---|---|---|---|
| HIGHEST DEMAND | $244,590 | $195,000 | 73% |
| MODERATE DEMAND | $120,761 | $96,250 | 63% |
| SOFT DEMAND | $62,763 | $50,000 | 42% |
| LOW DEMAND | $31,574 | $26,500 | 22% |
| LOWEST DEMAND | $25,186 | $22,000 | 14% |

Source: czb analysis of data from U.S. Census Bureau and BNAR.

Exterior Condition Field Survey Averages by Block




*Disparity in housing conditions is one of the most visible expressions of Buffalo's historical income, class, and racial divides. In areas with low demand, fewer than 10% of homes show high levels of maintenance and reinvestment by owners, while almost half show visible signs of disinvestment and distress.*

| | Residential parcels that are vacant lots | Code violations per 100 residential buildings | Permits issued per 100 residential buildings, 2004-2016 | Average permit value |
|---|---|---|---|---|
| HIGHEST DEMAND | 2% | 47 | 47 | $6,234 |
| MODERATE DEMAND | 6% | 65 | 34 | $2,824 |
| SOFT DEMAND | 10% | 70 | 25 | $2,476 |
| LOW DEMAND | 32% | 90 | 16 | $1,731 |
| LOWEST DEMAND | 49% | 118 | 18 | $1,199 |

| | Occupied rental units | Median gross rent | Median renter income | Median rent as a share of median Income | Maximum affordable rent for median renter |
|---|---|---|---|---|---|
| HIGHEST DEMAND | 16,440 | $728 | $33,535 | 26% | $838 |
| MODERATE DEMAND | 7,116 | $747 | $32,988 | 27% | $825 |
| SOFT DEMAND | 26,428 | $657 | $21,372 | 37% | $534 |
| LOW DEMAND | 11,861 | $623 | $15,956 | 47% | $399 |
| LOWEST DEMAND | 2,824 | $612 | $12,820 | 57% | $321 |

*Despite having rents that are the lowest in the city and fully 33% below the national median of $928 per month, the **Low** and **Lowest** sub-markets have the highest concentrations of cost-burdened renters. Renters in these markets typically pay well above 30% of their incomes on housing due to extremely low incomes.*

Source: czb analysis of data from City of Buffalo and U.S. Census Bureau.



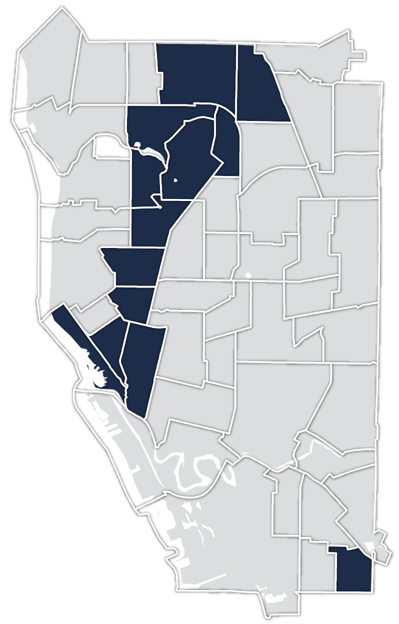
| | Occupied owner units | Median home value | Median owner income | Value to income ratio | Maximum affordable price for median owner |
|---|---|---|---|---|---|
| HIGHEST DEMAND | 11,192 | $209,476 | $90,714 | 2.3 | $272,142 |
| MODERATE DEMAND | 6,887 | $99,558 | $59,345 | 1.7 | $178,035 |
| SOFT DEMAND | 17,988 | $61,700 | $43,377 | 1.4 | $130,131 |
| LOW DEMAND | 8,276 | $40,072 | $33,877 | 1.2 | $101,631 |
| LOWEST DEMAND | 1,537 | $29,233 | $24,373 | 1.2 | $73,119 |

*A value to income ratio of 3.5 is indicative of a strong, stable, and accessible housing market where the price of a typical home is affordable to the market's typical household. Even the strongest sub-market has a ratio well below this level for current homeowners – indicative of **a recovery that is still underway but has yet to spread** to softer markets. In each sub-market, the **median house is worth substantially less than the median homeowner's purchasing power**.*

*Low home values are a reflection of many factors, including low demand for the location and low expectations for price stability or gains. This results in disinvestment and poor housing quality – which further dampens value. Improving upon any of these factors will increase costs. It is simply not possible to improve quality without boosting demand and cost – unless interventions take place that **cover the difference** between higher quality and a household's ability to pay for it.*

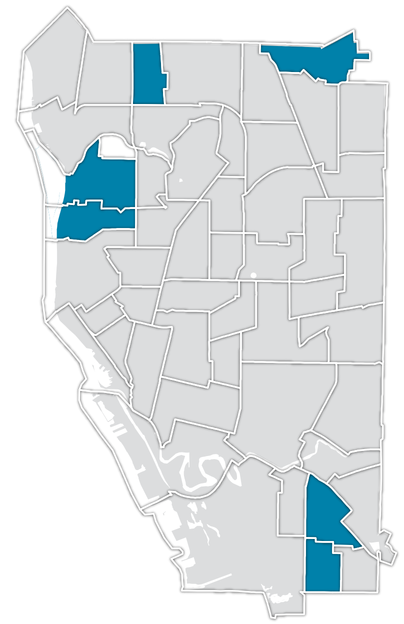
Source: czb analysis of data from City of Buffalo and U.S. Census Bureau.

## What's happening in these sub-markets?



### HIGHEST DEMAND

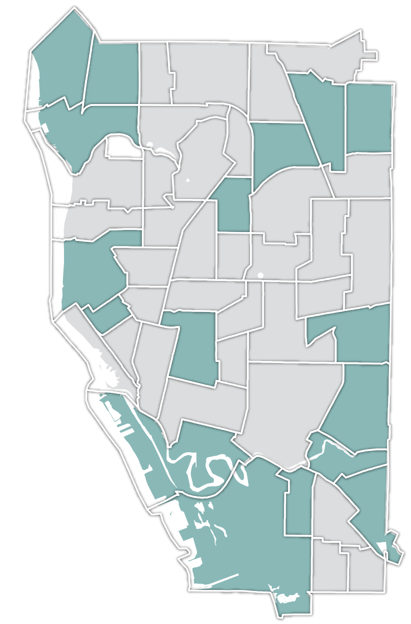
Neighborhoods in this sub-market are mostly adjacent to assets closely identified with Buffalo's recent resurgence, such as Elmwood Avenue, Hertel Avenue, Delaware Park, and the waterfront. They have a durable housing stock originally built for middle- and upper-class families. Some of these stocks received little investment in the late 20th Century and are now being eyed as fixer-upper opportunities, but the majority of homes are in excellent or good condition.



### MODERATE DEMAND

These neighborhoods are all adjacent to the Highest Demand sub-markets and benefit from that proximity. They include much of the upper West Side, University Heights (west of Main), and parts of South Buffalo.

Property conditions are mixed and can vary from block-to-block. One-third of homes are in excellent or good condition, but most are in average condition. This, along with homes being generally smaller in size, is reflected in average sale prices that are 50% lower than in the Highest Demand sub-markets.

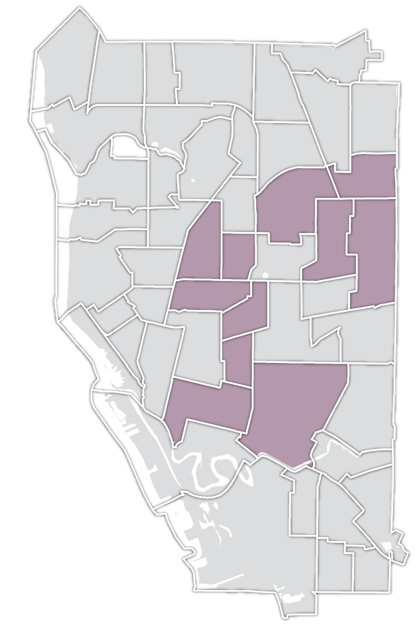


### SOFT DEMAND

Neighborhoods in this sub-market are located throughout the city and contain 40% of Buffalo's population. Though each has a distinct cultural history, they all spent the 20th Century as bastions for working- and middle-class families employed by Buffalo's industrial economy.

The erosion of that economy has taken a toll on these areas. Though not yet weak, many of them have become progressively poorer and older. Many homeowners remain, but rentals are on the rise. Average levels of maintenance predominate, but one-in-four properties are now showing signs of prolonged disinvestment.

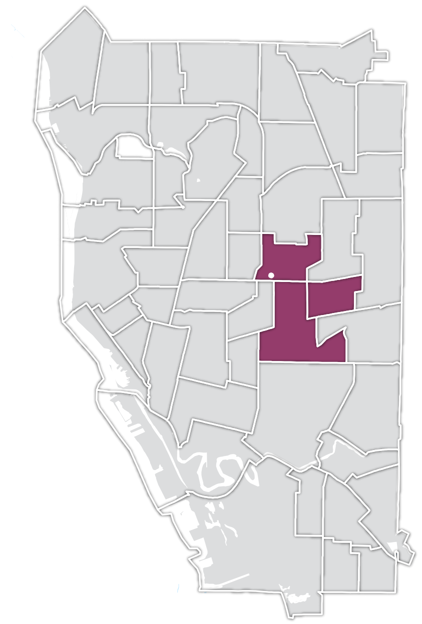
Whether parts of this sub-market improve or decline over the next decade depends to a large extent on proximity to stronger markets, the inherent character and durability of their housing stocks, and whether distress spreads or can be contained.



### LOW DEMAND

Neighborhoods in the Low Demand sub-market — all of them east of Main Street and north of the Buffalo River — have much in common, historically, with those in the Soft Demand sub-market. But decades of racial segregation, disinvestment, and rapid turnover have taken a heavy toll. Residential vacant lots are common and 40% of remaining properties show moderate or severe levels of distress.

These neighborhoods contain or are adjacent to significant assets — Jefferson Avenue, ECMC, MLK Park, Larkinville — and abut strong markets near downtown and along Main Street. They also contain pockets or several contiguous blocks of well-maintained homes.



### LOWEST DEMAND

The weakest sub-market is a relatively small area of the East Side. The population there has plummeted 62% since 1980, 49% of its residential parcels are vacant lots, and the incomes of both renters and homeowners are extremely low. Significant assets remain, but the average sale price is only $25,000.

# Disinvestment: Costs and Opportunities

If one of the ultimate aspirations of any community is to achieve sustainability in its neighborhoods — each one having well-maintained properties, minimal blight, and expressions of confidence that continuously encourage reinvestment by landlords and homeowners — what would it take, based on current conditions, to achieve such a goal in Buffalo?

The scale of disinvestment and deferred maintenance revealed by the survey of exterior conditions — including 2,000 properties showing significant signs of distress, 14,500 showing moderate signs of distress, and 37,500 signaling neither distress nor obvious pride — can be used as a basis for estimating the work needed to create healthy housing conditions in each sub-market.

Addressing the 2,000 severely blighted properties through demolition — which while good in some cases is not the appropriate solution in all — would cost upwards of $78 million based on a conservative estimate of acquisition, demolition, and cleaning & greening costs. The total varies significantly by sub-market, ranging from $2.7 million in Moderate Demand markets to almost $35 million in Low Demand markets.

This raises an important question from a strategy perspective. In the absence of $78 million to carry out such a blight removal effort, where should the city focus limited demolition resources?

A key consideration should be impact on the block in question, and the level of drag on reinvestment created by a blighted property. In other words, to what degree are property owners on the same block or adjacent blocks withholding investment in paint, roof repairs, landscaping, or kitchen upgrades because of the presence of blighted properties?

Each sub-market has some level of withheld housing investment capacity — which can be estimated by looking at the gap between the 30 percent of household income that households can afford to spend on housing each year and what they actually spend. In a market such as Buffalo's, where housing costs are relatively low and deferred maintenance is widespread, resources sitting on the sidelines are significant — upwards of $477 million citywide annually. These are resources that could be put towards housing — and largely would be if the market were stronger and owners were more confident about upgrading their assets — but are not, going instead to any number of other expenses.

If $3 million in demolition resources were to be channeled to the Moderate Demand market, it could be expected to unleash some of the $100 million that households in those neighborhoods are withholding. In the Lowest Demand market, the same level of resources would address only a fraction of the overall need while possibly leveraging only as much as $3 million.

A similar thought process can be applied when looking beyond the most blighted properties and towards the larger goal of sustainable neighborhoods. If investments were made to bring all other residential properties to a state of marketability, the citywide investment total would be at least $608 million.

With citywide housing investment needs over $600 million, and nearly $500 million in private household investment capacity currently being saved or spent in other ways, the implications for housing and neighborhood policy in Buffalo are clear: How can the city and its partners direct limited public resources — such as $17 million received from HUD in 2016-17, or annual spending on street and park improvements — in ways that unleash private investment and realize progress towards the goal of expanded access to healthy neighborhoods? **More plainly, the essential weak market problem in Buffalo is no longer a function of inadequate resources, but inadequately leveraged confidence sufficient to mobilize the community to reinvest money it already has.**

| | Estimated cost to remove all severely blighted homes *(a largely public expense)* | Estimated cost to make all housing marketable *(a largely private expense)* | Annual untapped housing investment capacity |
|---|---|---|---|
| HIGHEST DEMAND | $3,482,778 | $36,015,812 | $172,655,778 |
| MODERATE DEMAND | $2,762,905 | $53,258,501 | $100,933,780 |
| SOFT DEMAND | $21,394,916 | $298,531,449 | $166,468,571 |
| LOW DEMAND | $34,991,406 | $176,257,993 | $34,096,960 |
| LOWEST DEMAND | $15,483,417 | $43,608,069 | $3,176,503 |
| TOTAL | $78,115,422 | $607,671,824 | $477,331,592 |

*Untapped housing expense capacity in the healthiest Buffalo market is enough to cure deferred maintenance in that market in a single year – and still have $137 million leftover.*

# Existing Interventions

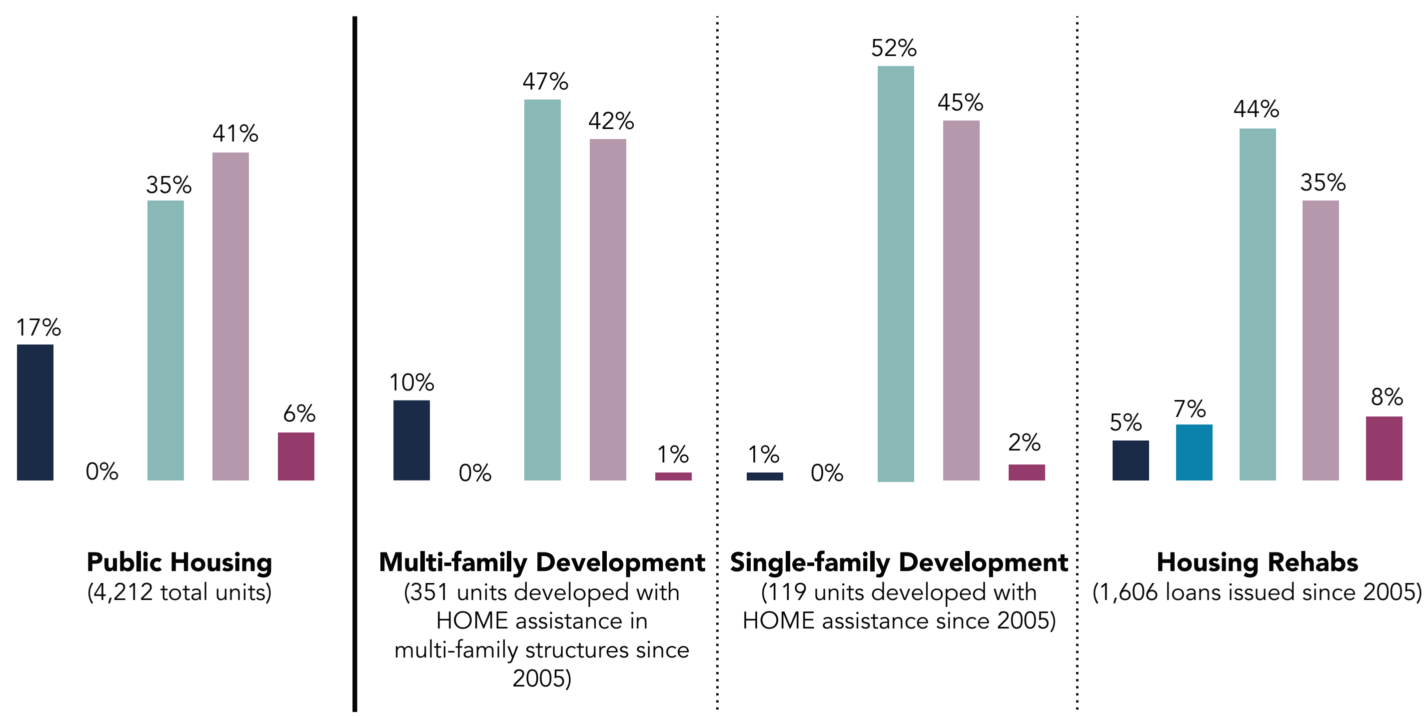
HIGHEST DEMAND
MODERATE DEMAND
SOFT DEMAND
LOW DEMAND
LOWEST DEMAND

How are existing interventions in housing quality and affordability deployed across the five sub-market types — and how are they leveraging reinvestment by property owners to improve neighborhood conditions?

There are a few ways to examine whether existing programs are generating outcomes beyond the mere production or improvement of a unit of housing. One way is to take a tool such as housing rehabilitation loans that the city has made and examine proximate investment activity. By looking at permits issued on affected blocks, an overall lack of impact becomes clear:

- Over one-third of all rehab loans and nearly half of all rehab dollars went to homes on blocks where little or no additional investment was made on property improvements (the rehab loans accounted for 75% or more of the value of improvement permits on those blocks)
- Just one-quarter of all rehab loans and only 16% of all rehab dollars went to homes on blocks where rehab loans accounted for under 25% of the value of improvement permits — in other words, where a significant level of additional investment was occurring on those blocks in tandem with those subsidized by HOME loans.

*Affordable housing preservation and development programs that have concentrated more than 40% of activity in Low or Lowest Demand markets*




Such a finding for the greater impact of rehab loans may not be surprising, given the location of 43% of those loans in the Low and Lowest Demand markets. In such markets, rehab loans can only be expected to have a wider impact on neighborhood health if they are targeted to blocks — of which there are many in the Low Demand neighborhoods — that are relatively stable and have strength to build from.

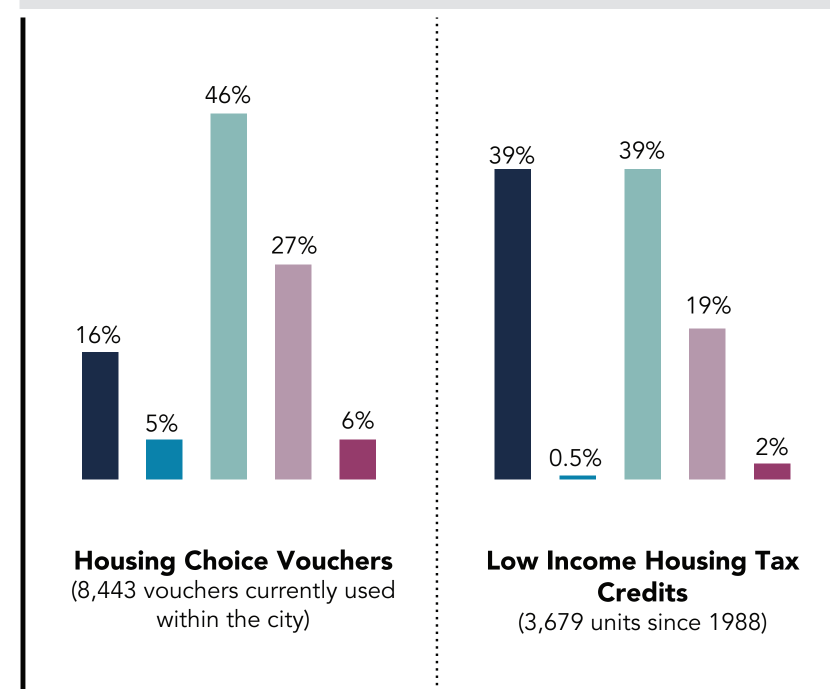
Another way to gauge impact is the relative concentration of affordable housing units by sub-market — recognizing that incomes are lower and poverty rates substantially higher in the Low and Lowest Demand markets. To concentrate new affordable housing in already high-poverty neighborhoods risks exacerbating the city's excess supply problem and reinforcing socio-economic conditions that make it difficult for poor families to achieve income mobility.

Recent construction with HOME support, for example, has been concentrated in the Moderate and Low Demand markets. By comparison, Housing Choice Vouchers have enabled many households to access a healthier range of neighborhoods within the city, with two-thirds of vouchers currently in use in the Highest, Moderate, and Soft Demand markets.

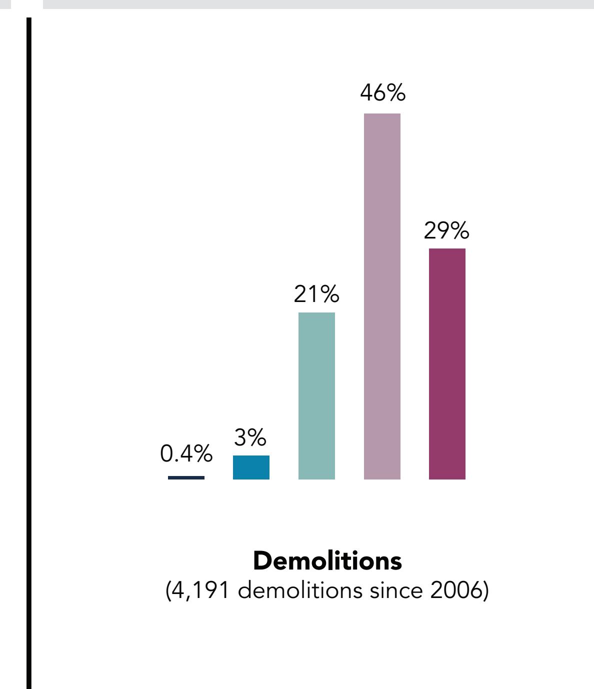
Making decisions about limited resources requires strategic intention — an intent to concentrate demand-oriented investments such as rehab loans, to not concentrate supply-oriented investments such as affordable housing and to say "no" to investment opportunities that are unlikely to make a sub-market stronger and a neighborhood healthier.

For decades, program rules drafted in Washington and Albany, a worst-first or squeaky wheel approach to dealing with blight, and political expediency have all too often served as substitutes for strategic intention in Buffalo — something that will have to change if sustainable progress is to be achieved.

*Affordable housing preservation and development programs that have concentrated more than 2/3 of activity in Moderate or Highest Demand markets.*




*Demolitions are heavily concentrated in markets with the highest blight and lowest demand – and are generally more opportunistic than surgical or strategic.*



PART 3

# Principles to Guide Strategy and Decision-Making

**5 Principles** for making long-term and short-term decisions

- **FOCUSED**
- **ASSET-BASED**
- **INCLUSIVE**
- **PATIENT**
- **LOCALLY-INVESTED**

Given current neighborhood conditions, the scale and cost of work to overcome significant deferred maintenance in the housing stock, and the resource and capacity limitations faced by a city that relies heavily on outside resources to address neighborhood and housing concerns, how should Buffalo approach strategy development and decision-making? On what basis should it make decisions about how to allocate resources, where, and to what end?

Based on steering committee discussions about housing priorities, stakeholder interviews, and existing market and neighborhood conditions, the following five principles are recommended as filters for making both long-term and short-term decisions about strategy, program design, and resource allocation.

## 1 FOCUSED

Spreading scarce resources across a wide geography severely limits impact.

Focusing resources inside a small number of well-defined areas achieves several important aims:

(1) it differentiates blocks where investment is occurring, thus enabling the market to take note of cues about positive future change,

(2) it communicates boundaries which the market interprets as a signal of predictability, and

(3) it concentrates resources for heightened impact.

**DO**

***Concentrate resources, energy, and attention in ways that will cultivate demand and build confidence.***

***Work on a surgical, block-by-block basis.***

**DO NOT**

***Attempt to distribute resources evenly – it might feel fair in the short-term but will do little to influence desired outcomes.***

## 2 ASSET-BASED

Focusing investments around assets generates returns at a higher rate – and at a faster pace – than around liabilities. It also forces critical consideration of opportunity costs: in a community rich with assets (parks, schools, churches, historic landmarks, transit routes, etc.), which ones offer the most return from focused investment?

**DO**

***Select areas of focused investment that contain or are adjacent to significant community assets.***

***Use implementation to cultivate the strengths of a neighborhood and build the capacity of partnering organizations.***

**DO NOT**

***Fixate on broad and seemingly intractable problems, which are more likely to result in paralysis and hopelessness than tangible progress.***

## 3 INCLUSIVE

A city that remains deeply disconnected along historical racial, ethnic, income, and disability divides, and where a large portion of its residents do not have access to healthy and sustainable neighborhoods, is unlikely to prosper. Such a city will be too internally torn and fiscally incapacitated to invest in its assets and remain competitive.

**DO**

***Leverage public resources to stimulate mixed-income housing production in sub-markets with stronger demand.***

***Coordinate a diverse team of partners to bring broad skillsets to every effort.***

**DO NOT**

***Support an affordable housing project that does not have strong mixed-income and handicap accessible components.***

***Support projects that further concentrate poverty in sub-markets with weaker demand.***

## 4 PATIENT

It may sometimes seem as if markets change overnight, but this is rarely the case. It takes time for resources to be marshalled, for the investments of dozens or hundreds of homeowners to be collectively transformative, and for resident leadership capacity to be cultivated. This is especially true in a market that has been stagnant or weak for decades.

**DO**

***Commit to long-term investment and sustained attention in targeted areas to boost property owner confidence and reinvestment.***

**DO NOT**

***Shift focus until demand (not just cosmetics) in a targeted area has been transformed.***



## 5 LOCALLY INVESTED

Overwhelming reliance on external resources to invest in housing and neighborhood improvement surrenders a healthy sense of local ownership and accountability for outcomes. It also surrenders local autonomy over outcomes and strategy – contorting local conditions to fit the requirements of state and federal programs that are often poorly calibrated in the city's needs.

**DO**

***Allocate local financial resources to achieve priorities faster and on the community's own terms.***

***Use local resources to better compete for, and shape the utilization of, external resources.***

**DO NOT**

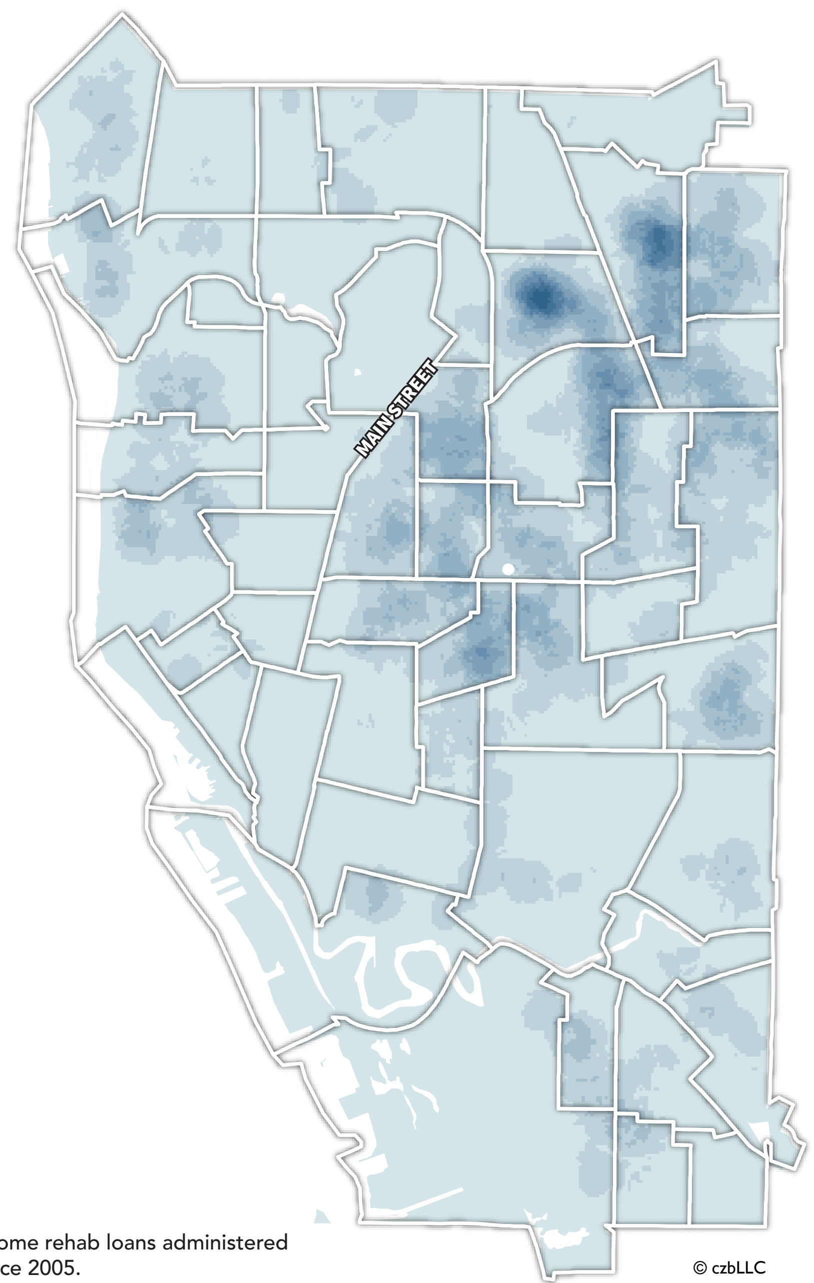
***Rely upon state or federal funds that force actions that are not well-aligned with local priorities and market conditions.***

***Expect progress to occur quickly, if at all, through a reliance on state and federal resources.***

Another critical guiding principle for housing and neighborhood policy in cities with soft housing markets is a blend of the **focused, patient, inclusive, and asset-based principles**: ensuring that demand-side interventions are geographically concentrated while supply-side interventions are more evenly distributed.

Concentrating demand-side interventions that are intended to boost market strength and stimulate investment by property owners — such as home rehab loans and improvements to public infrastructure — is a key to building confidence and transforming investment attitudes. Visible investments made in close proximity over an extended period have the potential to start and sustain a virtuous cycle of reinvestment — a cycle that is unlikely to materialize when investments are spread-out.

*Demand-side interventions to stimulate private investment in the housing stock should be concentrated. **Too often, these interventions have been highly diffused.***

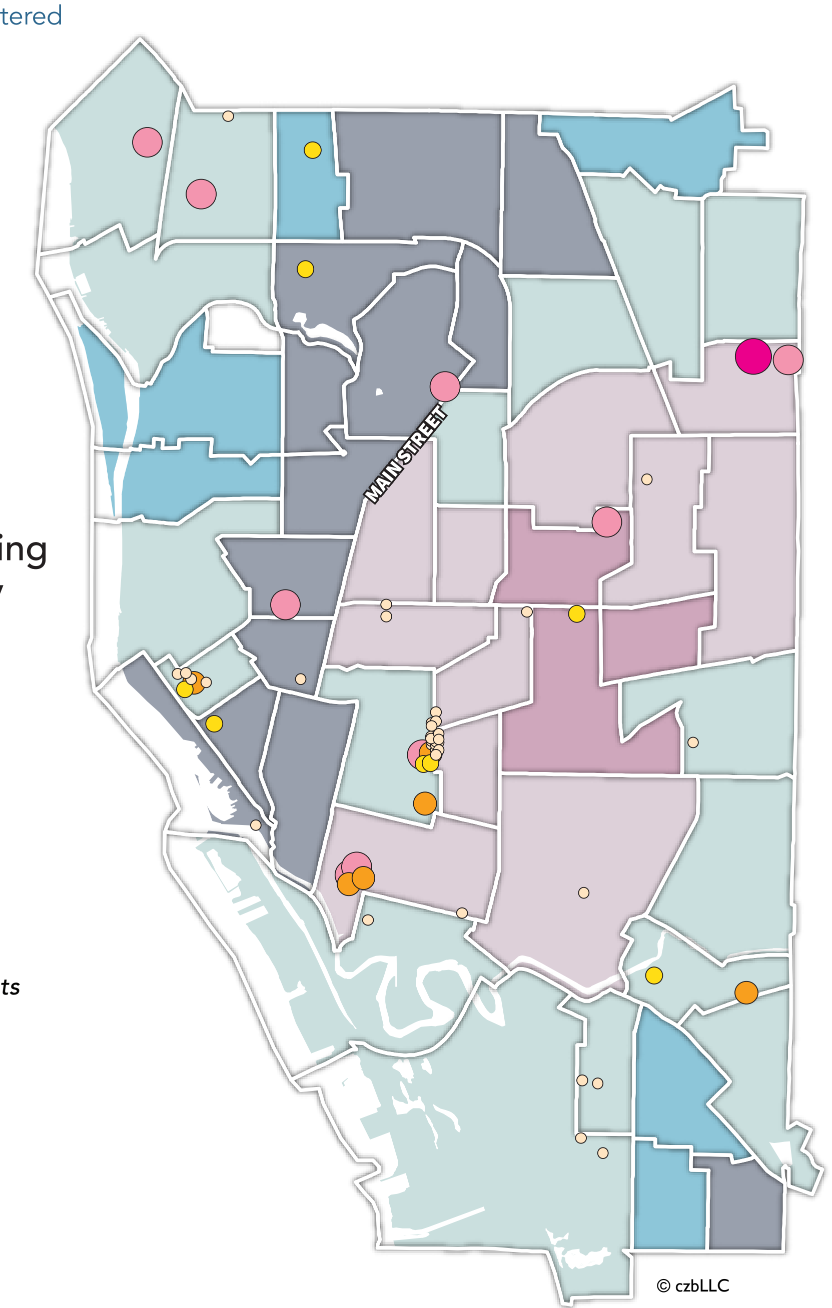



Source: czb analysis of home rehab loans administered by the City of Buffalo since 2005.

Distributing supply-side interventions that are intended to meet the needs of households with limited resources — such as income-restricted housing units — is essential for preventing or reversing concentrations of poverty that limit the upward mobility of low-income families and hamper the recovery of soft neighborhood housing markets. When such interventions are carefully blended within stronger markets — and supplemented by concentrated demand-side interventions — a full and healthy housing ladder becomes both possible and sustainable.

The prevailing practice for many years has been the reverse, resulting in affordable housing developments that are too often concentrated and sited in struggling neighborhoods, and in demand-side activities that are too often scattered and have limited transformative impact.

*Supply-side interventions to serve households in need should be diffused to avoid concentrations of poverty. **Too often, these interventions have been highly concentrated.***




Source: czb analysis of data from City of Buffalo.

# Tying Market Conditions and Principles to Strategy

Buffalo does not have a history of tailoring housing policies and programs to achieve specific outcomes in diverse market conditions. This must change, especially at a time when some markets are becoming stronger, the gaps between healthy and unhealthy neighborhoods are growing, and the resources traditionally used to address housing needs are declining.

But what outcomes are being sought — and how do existing market conditions and resource limitations shape what is realistically achievable at the neighborhood and block levels?

The challenge for the city and its stakeholders is to ensure that appropriate strategies are being pursued in each market — and to choose how to direct resources at levels sufficient to achieve measurable results in terms of outcomes, not outputs.

| | Realistic outcomes to strive for *(We'll know we're making progress if...)* | | General strategies to achieve key outcomes |
|---|---|---|---|
| | **Physical** | **Social** | |
| **HIGHEST DEMAND** | Healthy blocks remain healthy | Affordable options expand | Prioritize mixed-income infill development |
| **MODERATE DEMAND** | Healthy blocks remain healthy; number of blocks with distressed properties shrinks | Affordable options expand | Proactive code enforcement and compliance assistance;<br>Owner and rental rehab assistance;<br>Infrastructure investment near community assets |
| **SOFT DEMAND** | Number of blocks with distressed properties shrinks; blocks adjacent to city assets and stronger markets become healthier | Homeownership rates rise | Proactive code enforcement and compliance assistance;<br>Owner and rental rehab assistance;<br>Infrastructure investment near community assets |
| **LOW DEMAND** | Blocks around key city assets stabilize or improve; vacant lots are stabilized and well-managed | The concentration of low-income households declines | Stabilize blocks directly adjacent to stronger sub-markets;<br>Mixed-income housing in carefully chosen areas adjacent to strong sub-markets or city assets;<br>Carefully target demolition and rehabilitation;<br>Clean and green areas of highest distress and with highest existing concentrations of vacant lots |
| **LOWEST DEMAND** | Blocks around key city assets stabilize; vacant land is well-managed. | The concentration of low-income households declines | Clean and green areas adjacent to key city assets;<br>Fund quality of life enhancements identified by neighborhood residents |

PART 4

# A Housing and Neighborhood Toolkit for Buffalo

Even with a set of principles and general strategies as guideposts for intervening in various sub-markets, choosing and working with the right tools requires careful thought. Whether the city is sorting through its existing toolkit to gauge what's still useful, what needs adjusting, and what needs to be discarded, or developing new tools to fill gaps, it must approach each case with a thorough understanding of "why?"

The key first step in any intervention is to have a clear reason for doing so. Why demolish a building? Why help a low-income household make rent? Why require developers to do something they otherwise might not?

The "why" question — almost never asked, much less fully answered — is the basis for this Housing Opportunity Strategy. The act of investing public resources — local, state, or federal — whether in the form of cash, opportunity cost, or future value, must be substantiated by a well-reasoned and *plausibly attainable* aim.



**To justify an intervention, several threshold criteria must be met:**

1. First, there must be a baseline condition that the community agrees is intolerable, as well as consensus around *why it's intolerable and why it's more worthy than other needs competing for the same resources and attention.*

2. Second, there must be a trending probability that strongly suggests matters will not be corrected on their own, without intervention, and there needs to be a community consensus that *the trend is intolerable and why.*

3. Third, that the suggested intervention makes objective sense; in other words while there are no guarantees, it should work, and there needs to be a community consensus that *the risk of failure is supported.*

4. And fourth, that the intervention — both in terms of actual expense and opportunity cost — are deemed affordable and there needs to be a community consensus that *the intervention is worth doing, knowing all that can be reasonably known.*

**There are two highly interconnected baseline conditions, expressed in Part 1, that are intolerable:**

GENERAL WEAKNESS IN THE OVERALL MARKET

PROBLEM OF POVERTY

One is a **general softness in the overall market** that places Buffalo among the weakest in the country, resulting in a vicious cycle of disinvestment that in turn impacts the city's capacity to be self-sufficient and fiscally stable. This is a problem of inadequate demand, and while a few neighborhoods have begun to experience renewed demand, the city overall remains quite weak, leaving it vulnerable to another downturn.

The other is the **problem of poverty**, which is significant in its persistence and overall magnitude, and which is also geographically hyper-concentrated. The housing cost burdens faced by poor households exist in spite of low housing costs in many neighborhoods where poor families live, signifying that the affordable housing dilemma is more a problem of poverty and low incomes than expensive real estate and high housing costs.

Many households remain unable to procure decent and affordable housing either in the city's strong neighborhoods or the suburbs. This is relevant because historically, affordable housing and community development interventions have been shaped either to respond to the needs of low-income households in terms of affordability where they are, or the distress of low-income areas in terms of neighborhood conditions.

In short, interventions in Buffalo have to always be tied to strengthening the city's fiscal situation at one level, while strengthening the neighborhood where the intervention is aimed at the other. Few interventions will likely accomplish both. Indeed, putting the principles and general strategies into practice will require hard choices, inventiveness, and flexibility for several reasons:

**Hard choices.** Significant needs coupled with limited resources is the defining reality. Difficult decisions are required, and scarce dollars have to provide a multiplier effect.

**Persistence.** The scale of the challenge necessitates a long-term commitment. Not every intervention will yield the same payback and some tools will require more patience than others.

**Risk tolerance.** Trial and error will be critical to any potential success. Some interventions will fail in the short run, but can still offer valuable lessons. Buffalo must be willing to try and fail to find a way forward.

**Improvisation.** There is no successful playbook for what Buffalo faces other than what it creates. Cities sharing Buffalo's core dilemma of concentrated poverty, decades of disinvestment, and an unequal rebound are being forced to invent.

**One Size Does Not Fit All.** Different neighborhoods — as well as different blocks in the same neighborhood and different properties on the same block — will benefit from different tools. Neighborhoods can be harmed by treating them all the same.

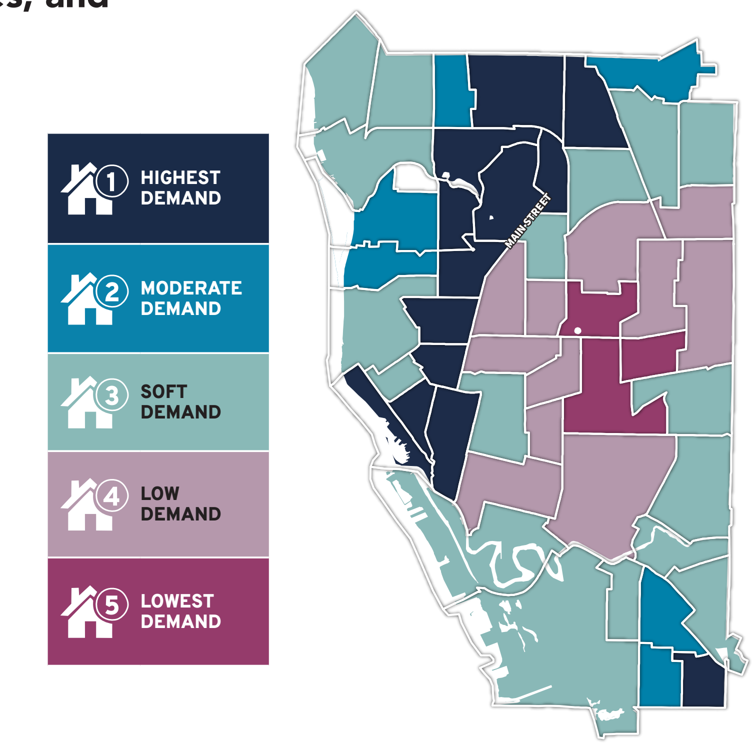
**Goalposts.** It's critical to know where the end zone is, and that the goalposts aren't going to be moved. All housing investments must be based on outcomes that are objective, measurable, and meaningful.

These are some of the reasons why no single tool or policy will solve the city's biggest challenges. Until Buffalo is financially stronger, resources will not be sufficient to avoid controversial and painful trade-offs, however sensible or justifiable. And even when the city is back on solid financial ground, other aspirations such as infrastructure, environmental sustainability, education, and so on will be competing against housing for priority status.

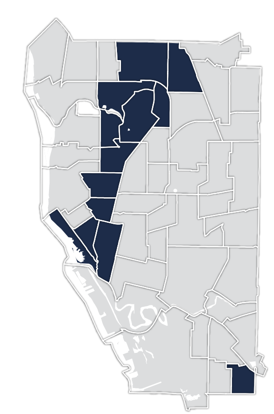


## Aligning Existing and New Interventions with Market Conditions, Principles, and Strategic Objectives

Numerous interventions already exist in the Buffalo housing market — be they efforts to boost the affordable housing supply, enforce building codes, improve infrastructure, manage public housing, or finance home improvements. Numerous departments and agencies inside and outside of City Hall are involved. As the city and its partners consider the "why?" behind existing programs and the role that each might have in a toolkit aligned with the market conditions, principles, outcomes, and broad strategies outlined in this Housing Opportunity Strategy, the following matrix represents a way to organize and apply existing and new interventions on a sub-market basis.




### HIGHEST DEMAND



#### EXISTING INTERVENTIONS

**Code Compliance Assistance and Enforcement:**
Target the small number of distressed properties in order to maintain already high standards and unleash untapped housing investment capacity

**Low Income Housing Tax Credits:**
Only if 80% of units ≤ neighborhood median rents

**HOME Program Multi-family:**
Only if 80% of units ≤ neighborhood median rents

**In rem foreclosure:**
Mediate the disposition of select properties near key assets to control outcomes

#### NEW OR EXPANDED INTERVENTIONS

**Community Land Trust:**
Seize opportunities, however rare, to control scarce land in the Highest Demand markets and lock in long-term affordability

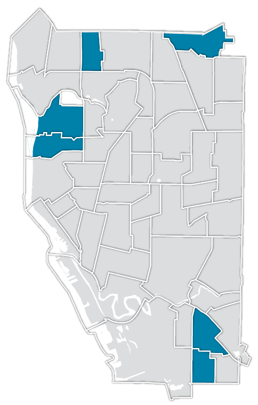
**Inclusionary Zoning:**
Use towards promotion of mixed-income development; must be financed by cost offsets or subsidies

**Inclusive Housing Property Tax Exemption:**
Develop a Buffalo version of NYC's 421-a to provide an incentive for mixed-income development

**Rental Inspections:** Use routine health and safety inspections to improve rental standards and identify lead hazards

**Project-based Vouchers:** Attach housing vouchers to designated units (new or rehabilitated) to preserve affordability

## MODERATE DEMAND



### EXISTING INTERVENTIONS

**Code Compliance Assistance and Enforcement:**
Provide robust compliance assistance

**Home Rehab Loans:**
Target well-maintained properties on relatively stable blocks

**Low Income Housing Tax Credits:**
Only if 60% of units ≤ neighborhood median rents

**HOME Program Multi-family:**
Only if 80% of units ≤ neighborhood median rents

**In rem foreclosure:**
Third party transfer

**Demolition:**
Targeted acquisition and demolition of blighted and unsalvageable homes

**HOME Program Single-family Development:**
Use for scattered site infill

### NEW OR EXPANDED INTERVENTIONS

**Community Land Trust:**
Use as long-term hedge against loss of affordability

**Inclusionary Zoning:**
Use towards promotion of mixed-income development; must be financed by cost offsets or subsidies

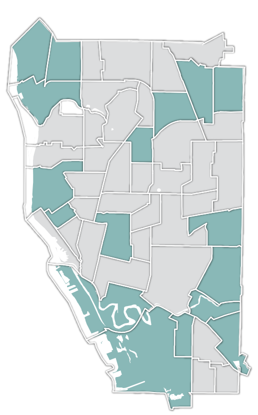
**Inclusive Housing Property Tax Exemption:**
Develop a Buffalo version of NYC's 421-a to provide an incentive for mixed-income development

**Micro Mortgages to Expand Homeownership:** Help low-income renters reduce their housing cost burden through targeted homeownership assistance

**Rental Inspections:** Use routine health and safety inspections to improve rental standards and identify lead hazards

**Project-based Vouchers:** Attach housing vouchers to designated units (new or rehabilitated) to preserve affordability

## SOFT DEMAND



### EXISTING INTERVENTIONS

**Code Compliance Assistance and Enforcement:**
Provide robust compliance assistance

**Home Rehab Loans:**
Target well-maintained properties on relatively stable blocks

**Low Income Housing Tax Credits:**
Only if 100% of units ≥ neighborhood median rents

**HOME Program Multi-family:**
Only if 100% of units ≥ neighborhood median rents

**In rem foreclosure:**
Third party transfer

**Demolition:**
Targeted acquisition and demolition of blighted and unsalvageable homes

**HOME Program Single-family Development:**
Use for scattered site infill

### NEW OR EXPANDED INTERVENTIONS

**Community Land Trust:**
Use as long-term hedge against loss of affordability

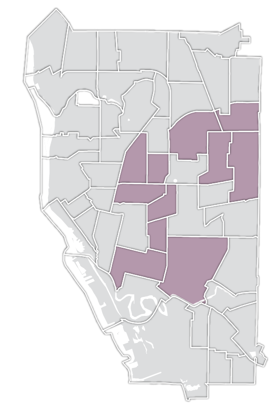
**Inclusionary Zoning:**
Use towards promotion of mixed-income development as market-rate momentum spreads out from stronger neighborhoods; must be financed by cost offsets or subsidies

**Micro Mortgages to Expand Homeownership:** Help low-income renters reduce their housing cost burden through targeted homeownership assistance

**Rental Inspections:** Use routine health and safety inspections to improve rental standards and identify lead hazards



## LOW DEMAND



### EXISTING INTERVENTIONS

**Code Compliance Assistance and Enforcement:**
Provide robust compliance assistance

**Home Rehab Loans:**
Target well-maintained properties on relatively stable blocks when inside 0.5 mile radius of critical economic asset

**Low Income Housing Tax Credits:**
Only if 100% of units > neighborhood median rents

**HOME Program Multi-family:**
Only if 100% of units > neighborhood median rents

**In rem foreclosure:**
Land Bank

**Demolition:**
Follow-up demolitions with clean & green activities and downzoning

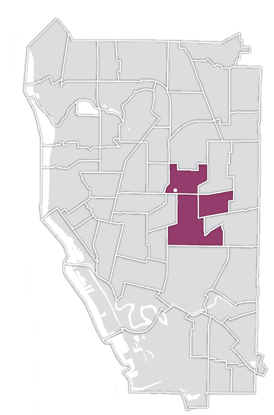
**Vacant Land Management:**
Focus on active and passive management of vacant land

### NEW OR EXPANDED INTERVENTIONS

**Micro Mortgages to Expand Homeownership:** Help low-income renters reduce their housing cost burden through targeted homeownership assistance

**Rental Inspections:** Use routine health and safety inspections to improve rental standards and identify lead hazards

## LOWEST DEMAND



### EXISTING INTERVENTIONS

**Code Compliance Assistance and Enforcement:**
Deploy strong code enforcement near key assets; pair with rental inspections to establish a firm floor in city's rental market

**In rem foreclosure:**
Land Bank

**Demolition:**
Follow-up demolitions with clean & green activities and downzoning

**Vacant Land Management:**
Focus on active and passive management of vacant land

### NEW OR EXPANDED INTERVENTIONS

**Neighborhood Improvement Fund:**
Provide funding to be spent at neighborhood's discretion on quality of life enhancements

**Rental Inspections:** Use routine health and safety inspections to improve rental standards and identify lead hazards

# Guidance on Select Tools for Buffalo

**Micro Mortgage Program**

**Community Land Trust**

**Inclusionary Zoning**

**Property Tax Exemption for Inclusive Housing**

**Rental Inspections**



## Micro Mortgage Program

**WHAT** A program to assist the potential transition of low-income renters to affordable homeownership as a way for them to reduce their housing cost burden and stabilize their monthly housing costs – while also stabilizing still-viable blocks in targeted areas of the city.

**WHY**

- The median home in Buffalo is affordable to a household making as little as $23,000, while an income of at least $28,000 is needed to afford the city's median gross rent. Many of the 21,000 households earning between $20,000 and $35,000 per year, 60% of whom rent, could reduce their housing cost burden by transitioning from renting to some form of homeownership. Because there is no profit in originating mortgages under $50,000 – especially if buyers have credit problems and inadequate savings – and because the properties in Buffalo in this price range often constitute weak collateral (owing to deferred maintenance, excess supply, and neighborhood condition), buying opportunities are very scarce for many renters who would benefit from lower monthly housing costs.
- In 2016, just over 300 single family homes in the city sold for between $15,000 and $100,000 — mostly in the city's Soft Demand and Low Demand sub-markets. And almost 60% were sold to investors, who often have cash on hand to complete such transactions without involving a bank. Areas where such transactions are concentrated have experienced dropping homeownership rates since 2000, which bodes poorly for long-term property maintenance and neighborhood stability.

**HOW**

- Provide an incentive that encourages banks to write mortgages on properties purchased for less than $100,000 (make it worth their while), and an incentive to not-for-profits capable of bringing qualified buyers to banks.
- Assist would-be buyers with credit repair and homeowner training. Provide credit enhancing second mortgages that can convert to grants. Connect qualified prospective buyers to renovated supply in targeted locations.
- Target homes under $100,000 with in good, average, or moderately distressed condition (based on field survey) in Buffalo's Moderate Demand, Soft Demand, and Low Demand markets. Capitalize high-capacity not-for-profits or other organizations with a proven track record to acquire, write construction-specs, and manage moderate rehabilitation of good quality but compromised single family homes on vulnerable but recoverable blocks.

## Community Land Trust

**WHAT** Create a hedge against long-term loss of affordability through a land trust that acquires, holds, and develops parcels in areas where markets are currently recovering or highly likely to recover. This provides a ready supply of lots for mixed-income projects and protects the cost of housing from escalating land prices.

**WHY**

- Ensuring inclusiveness in high demand neighborhoods – or that are adjacent to high demand markets and are likely to become so themselves – becomes more and more costly as demand grows. Publicly-owned vacant land in these places represents an opportunity to leverage vacant land as an asset for ensuring the presence of affordable rental or homeownership opportunities well into the future.

**HOW**

- Create or designate a citywide land trust that would receive publicly-owned vacant parcels for the purposes of (1) holding and maintaining those parcels in the near-term, (2) seeking out for-profit and not-for-profit partners to develop affordable rental and homeownership opportunities, and (3) entering into long-term land leases with the owners of completed properties to preserve affordability.
- Target parcels from Highest Demand, Moderate Demand, and Soft Demand markets – in that order. These are areas where demand is likely to stimulate new investment in housing and where inclusion needs to be carefully planned.

## Inclusionary Zoning

| | |
|---|---|
| **WHAT** | Leverage market-rate development activity to augment the city's supply of affordable housing units while also creating inclusive, mixed-income environments. |
| **WHY** | • Buffalo is extremely segregated by race and class, and the market types identified in this Housing Opportunity Strategy reflect this. Highest Demand and Moderate Demand markets – where new market-rate housing is most likely to happen – are noticeably richer and whiter than areas where demand is weaker and where affordable housing developments have historically been concentrated.<br><br>• Even if developer costs are fully offset, inclusionary zoning in Buffalo has the potential to make no more than a minor dent in Buffalo's affordable housing need, owing to the still anemic rate of market-rate activity in Buffalo, on which IZ must rely for any impact at all. Nevertheless, creating mixed-income environments in the city's healthiest neighborhoods is an important outcome to work towards, and IZ can and should be one of many tools deployed in that effort. |
| **HOW** | • In almost every community that utilizes IZ, there is recognition that the creation of a public good – an affordable housing unit – must be paid for through cost offsets or outright cash subsidies. Not doing so risks staunching market-rate activity to a level that would yield few if any inclusionary units as a by-product.<br><br>• Given development costs in Buffalo, the break-even monthly rent needed for a modest two-bedroom apartment to be financially viable is $1,500 (2017 market conditions). Only 2.3% of units in the city currently rent at that level or above; indeed nearly all "market-rate activity" in Buffalo today would not occur without subsidy. There are simply too many excellent alternatives in the region at that price point. The fragility of the Buffalo market means that any IZ policy must fully offset a developer's reduced revenue stream to achieve the policy's goal.<br><br>• A voluntary system whereby developers can opt out of an inclusionary requirement by foregoing all other local subsidies is one way to create a "but for" test for market-rate projects in the city. But projects that must utilize subsidies to be feasible and would be required to have an inclusionary component would have to be compensated through a dedicated IZ subsidy.<br><br>• Care must be taken to establish effective administrative and monitoring procedures to ensure that inclusive housing units are rented or owned by income-eligible households. |

## Rental Inspections

| | |
|---|---|
| **WHAT** | Improve and monitor the condition of Buffalo's existing rental stock through an inspection program that builds upon the city's current rental registry. |
| **WHY** | • Most of Buffalo's affordable rental units are in the hands of private landlords, many of whom are conscientious about maintaining safe and healthy rental environments. But a considerable number of landlords operate toxic properties and their units contribute to neighborhood instability and persistent distress. Too many are milking what they can from degraded properties with little thought to the expenses currently borne by the public through their negligence, or the expenses that will be incurred by the public when their properties finally succumb to decades of disinvestment. |
| **HOW** | • Couple the existing rental registration program with an additional requirement that rental properties undergo a standard health and safety inspection at regular intervals (every one or two years). Inspection and enforcement costs would be borne by landlords through an inspection fee.<br><br>• To recognize and reward good landlords, institute a performance-based system that tracks code violations, nuisance complaints, tax compliance, and other variables. For landlords with good track records, reduce the frequency of inspections and offer a discounted inspection fee. |

## Property Tax Exemption for Inclusive Housing

| | |
|---|---|
| **WHAT** | Use a geographically targeted property tax exemption to encourage mixed-income development. |
| **WHY** | • The 485-a property tax exemption, enabled by the state legislature and adopted by the City of Buffalo, has been an important tool for many of the mixed-use conversion projects completed by for-profit developers over the past decade.<br><br>• Creating a similar tax exemption program for developers who undertake inclusive, mixed-income development would help stimulate higher levels of inclusive development and could serve as a cost offsetting component of an inclusionary zoning program. |
| **HOW** | • The New York State Legislature recently revived the 421-a tax exemption program in New York City and renamed it "Affordable New York." Among numerous components, the program includes a property tax exemption that tapers over time for developers who incorporate units for low- and moderate-income households in market-rate developments located in certain neighborhoods.<br><br>• A Buffalo version of "Affordable New York," which would have to be enabled by Albany, could provide property tax exemptions for the construction of inclusive housing developments in the city's High Demand, Moderate Demand, and Soft Demand markets. . Though 485-a currently provides exemptions for mixed-use conversions, a Buffalo version of Affordable New York could be structured to benefit adaptive reuse projects, which would have the option of foregoing 485-a to receive a more lucrative incentive for inclusive housing (in exchange for the income-restricted units). |

INTERVENTION DEMONSTRATION AREAS

# Principled, market appropriate interventions

Resources are scarce and the barriers to a full and healthy housing ladder can seem overwhelming. Where do you begin? What tangible steps will lead to a healthier, more confident neighborhood? How do you know when it's time to shift resources in a new direction to fortify your gains?

**For the instructional purposes of this document**, four areas of Buffalo have been chosen to demonstrate the concept of principled, market-appropriate interventions under a wide range of neighborhood conditions. The target areas identified in each area are suggestive of the type of neighborhood-level planning and prioritization that will be needed to activate this Housing Opportunity Strategy.



**5 Principles**

**FOCUSED**

**ASSET-BASED**

**INCLUSIVE**

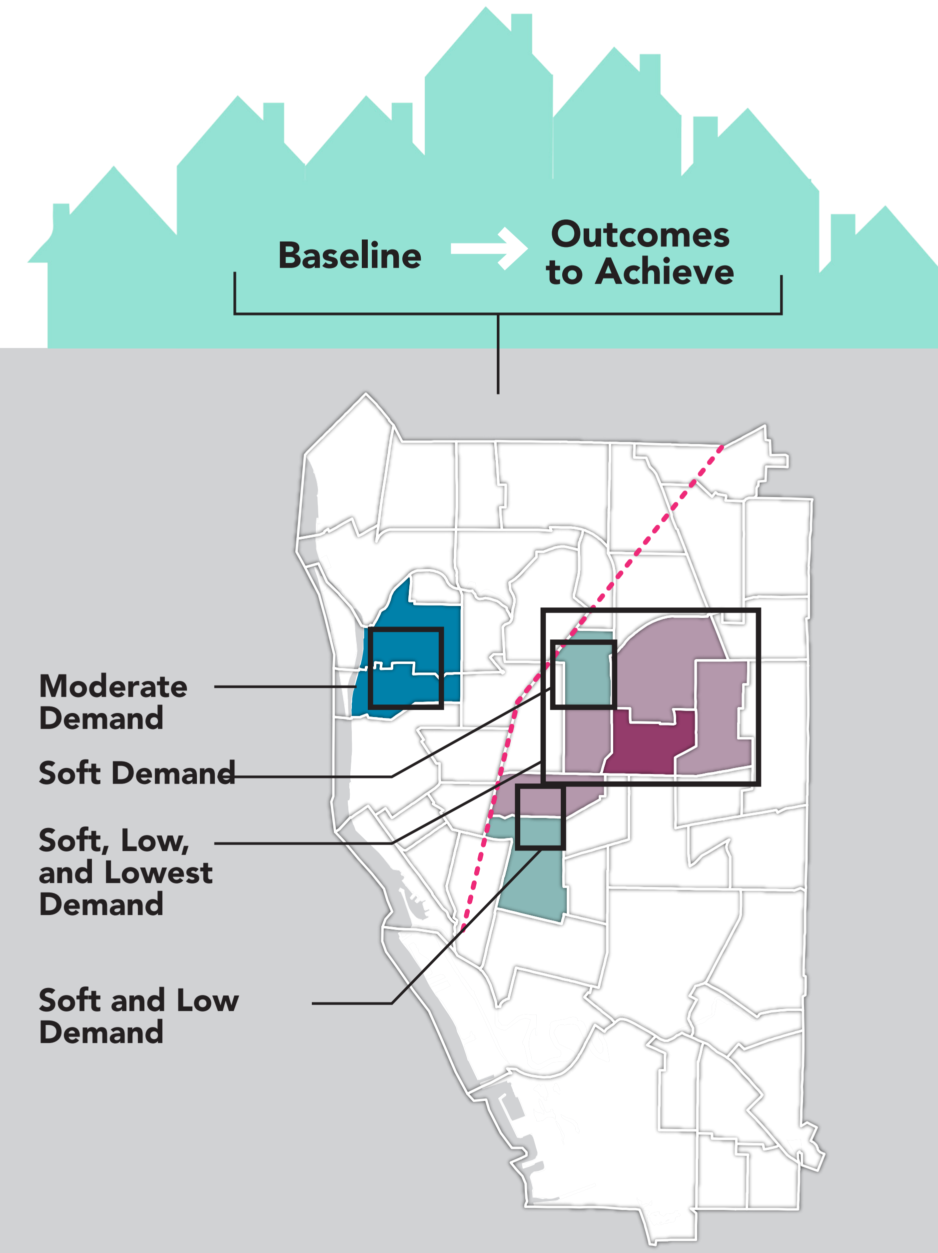
**PATIENT**

**LOCALLY-INVESTED**

**Market Appropriate Interventions**

**Four Demonstration Areas**

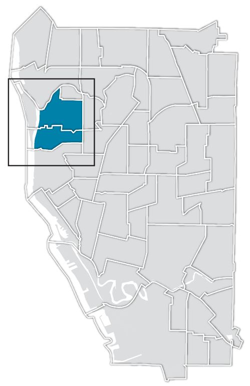
**Metrics for Demonstration Areas**



INTERVENTION DEMONSTRATION A

# SUB-MARKET TYPE:
# Moderate Demand

**Context**
On Buffalo's upper West Side, market conditions are strong on blocks adjacent to Richmond Avenue but get softer on block farther west. Reinvestment is making its way westward, but many blocks still have a high proportion of homes where decades of deferred maintenance are easily detectable. Significant public and private investments at the Richardson-Olmsted Complex, Buffalo State College, and along the Grant Street corridor represent opportunities to build momentum and channel it to meet housing needs.



| Measures to Track | Baseline | Outcomes to achieve |
|---|---|---|
| *% of properties in moderate or severe distress* | 25% | 10% |
| *% of blocks with at least two distressed properties* | 80% | 25% |
| *% of properties in good or excellent condition* | 17% | 40% |
| *% of single family homes owner-occupied* | 70% | 80% |

**Block-level Field Survey Average**

Good (2.5)

Average (2.5-3.49)

**Potential Target Area Parcels**

Vacant Lots

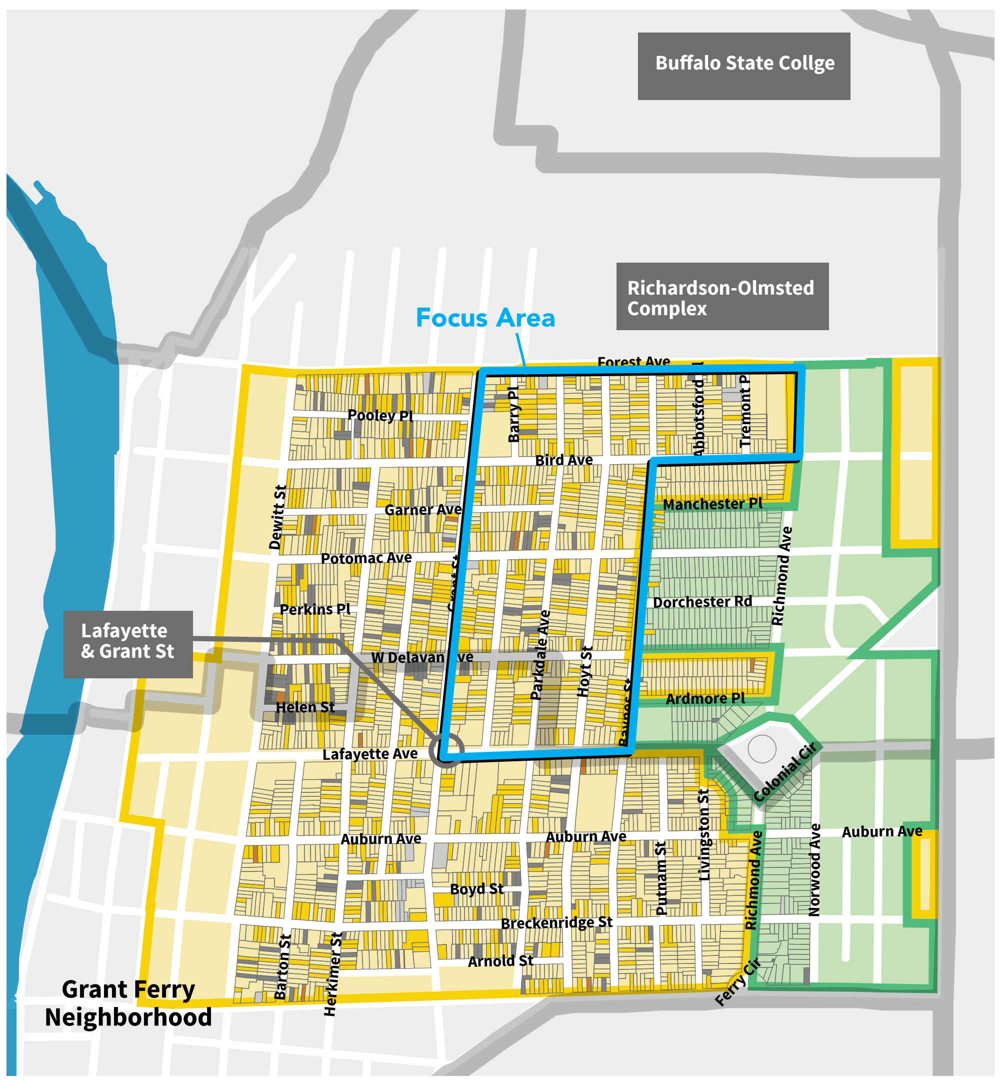
Vacant Land (Commercial)

Vacant Land (Residential)

**Distressed Properties**

Field Survey = 4

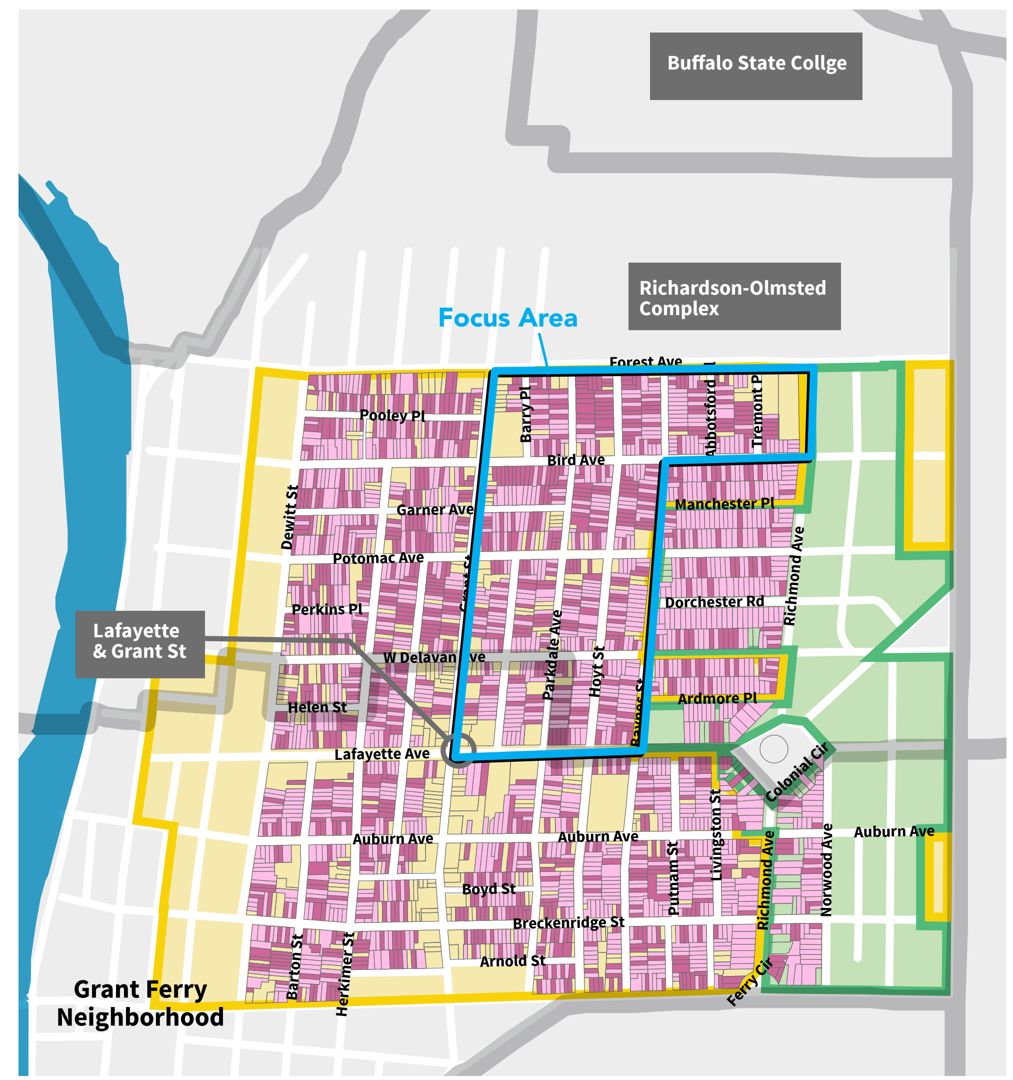
Field Survey = 5






## What might principled and strategic intervention in this part of Buffalo look like?

- Select an area of focus that includes or is adjacent to key assets. Areas where stronger markets transition to softer markets are ideal as they represent opportunities to protect areas with momentum while spreading confidence to areas where private investment is needed to improve housing conditions.
- Within the area of focus, patiently deploy tools such as the following:
  - Deposit city-owned vacant lots into a community land trust to ensure long-term affordability of future development — combine with scattered site infill of new affordable units
  - Pursue aggressive code enforcement and compliance assistance
- Extend home rehab loans to property owners on stable blocks that currently demonstrate active investment in their home
- Acquire and demolish unsalvageable properties — especially on blocks that are otherwise stable
- Negotiate the transfer of selected foreclosed properties (especially high visibility properties, or those on stable blocks) to carefully vetted owners or developers whose plans align with neighborhood goals
- Invest in corridor beautification along Grant Street to fortify recent investments on the corridor




**Block-level Field Survey Average**

Good (2.5)

Average (2.5-3.49)

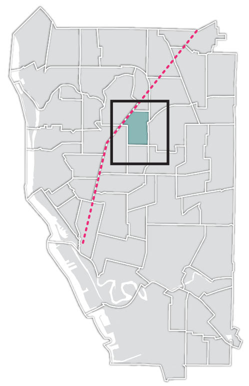
**Parcels Owner Type**

Owner Occupant

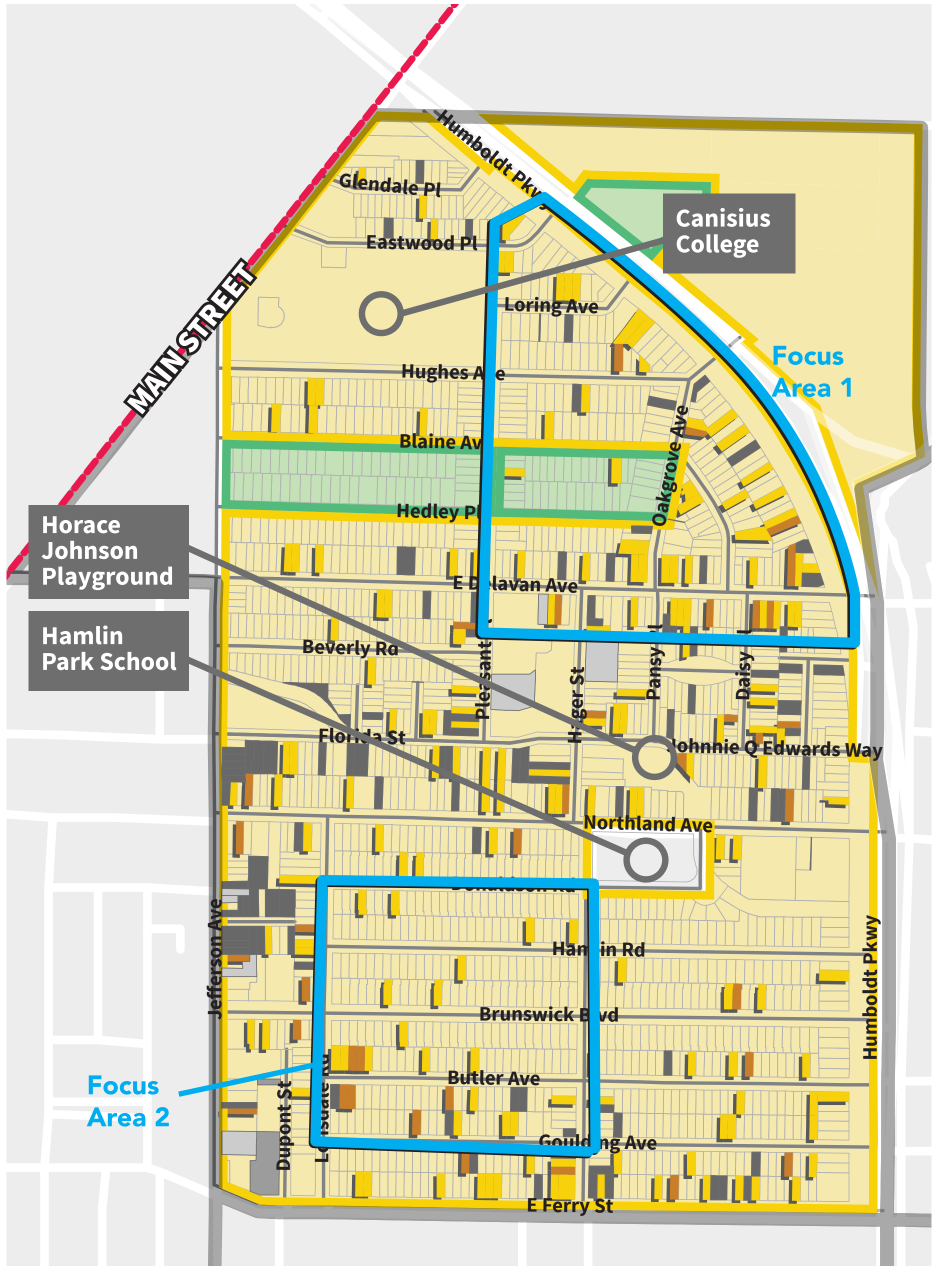
Investor-owned

INTERVENTION DEMONSTRATION B

# SUB-MARKET TYPE: Soft Demand



**Context**
Hamlin Park is a stable but vulnerable neighborhood with a solid housing stock, anchor institutions, and close proximity to stronger markets west of Main Street. Few blocks, however, are untouched by distressed housing and many are at a tipping point. Arresting decline and encouraging reinvestment will be a key to preserving the neighborhood's well-built and affordable housing stock.




Key Corridors

**Block-level Field Survey Average**

- Good (2.5)
- Average (2.5-3.49)

**Investment Opportunity Area Parcels**

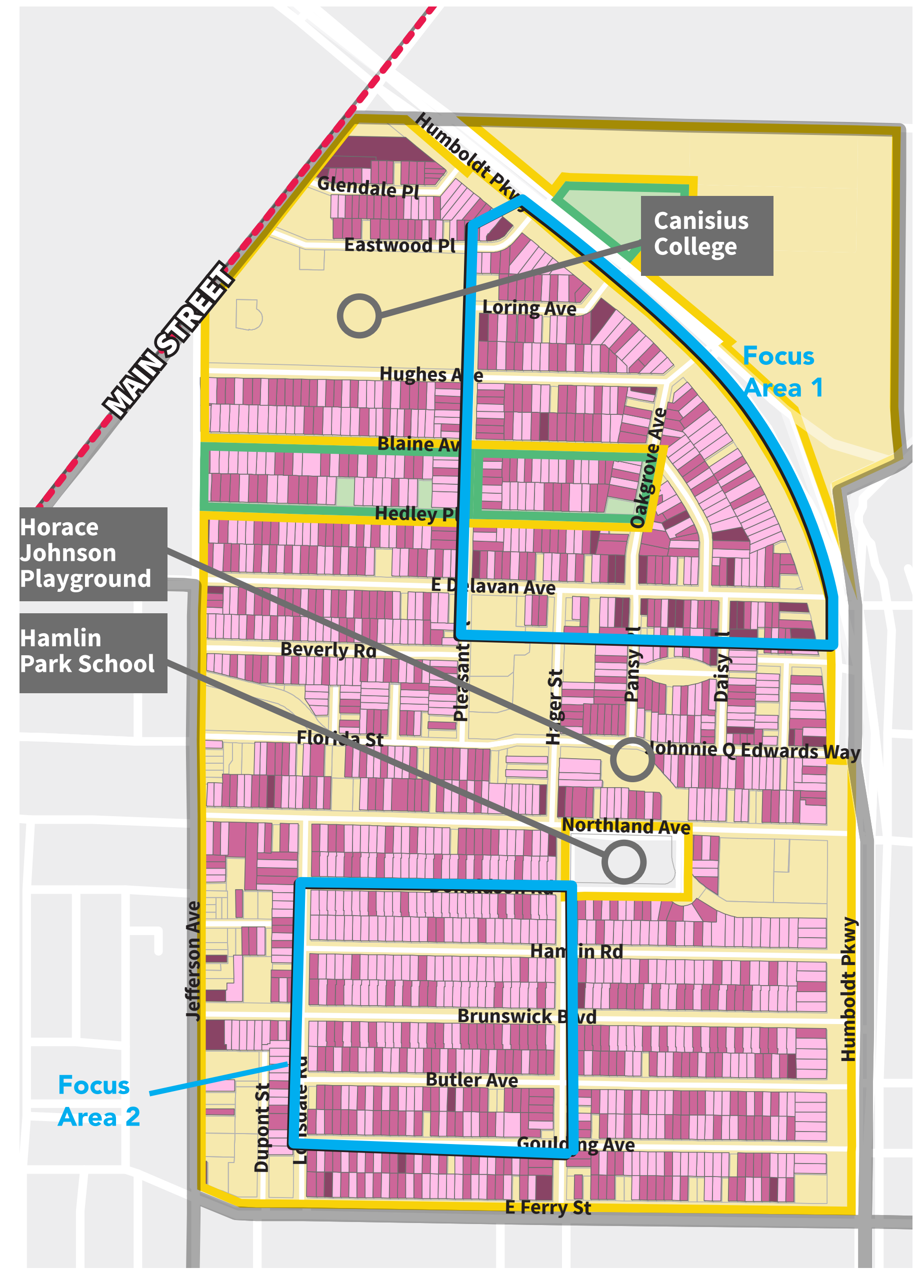
Vacant Lots

- Vacant Land (Commercial)
- Vacant Land (Industrial)
- Vacant Land (Residential)

**Distressed Properties**

- Field Survey = 4
- Field Survey = 5

| Measures to Track | Focus Area 1 Baseline | Focus Area 1 Outcomes to achieve | Focus Area 2 Baseline | Focus Area 2 Outcomes to achieve |
|---|---|---|---|---|
| *% of properties in moderate or severe distress* | 19% | 10% | 11% | 5% |
| *% of blocks with at least two distressed properties* | 70% | 25% | 100% | 25% |
| *% of properties in good or excellent condition* | 35% | 40% | 30% | 40% |
| *% of single family homes owner-occupied* | 60% | 75% | 84% | 85% |




Key Corridors

**Block-level Field Survey Average**

- Good (2.5)
- Average (2.5-3.49)

**Parcels Owner Type**

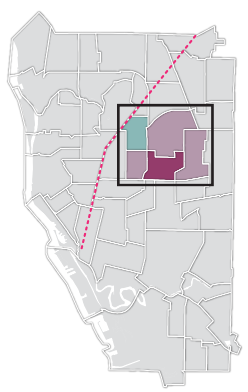
- Owner Occupant
- Investor-owned
- Large Multifamily and Mixed Use

## What might principled and strategic intervention in this part of Buffalo look like?

- Select areas of focus that include or are adjacent to key assets. Place a particular emphasis on preventing further decline on blocks that are mostly stable but are threatened by several distressed properties.
- Within the areas of focus, patiently deploy tools such as the following:
  - Pursue aggressive code enforcement and compliance assistance
  - Extend home rehab loans to property owners on stable blocks that currently demonstrate active investment in their home
  - Expand homeownership opportunities for low- and moderate-income buyers
  - Encourage and assist utilization of historic preservation tax credits by homeowners and landlords
  - Acquire and demolish unsalvageable properties — especially on blocks that are otherwise stable
  - Negotiate the transfer of selected foreclosed properties (especially high visibility properties, or those on stable blocks) to carefully vetted owners or developers whose plans align with neighborhood goals
  - Invest in corridor beautification along Jefferson Avenue

INTERVENTION DEMONSTRATION C

# SUB-MARKET TYPE:
# Soft, Low and Lowest Demand



**Context**
When stable blocks anchored by citywide assets are surrounded by distressed blocks and corridors, focused intervention becomes critical to protecting those assets and leveraging the investments of dedicated property owners. On the East Side, a combination of focused work dedicated to stimulating demand must be coupled the long-term management of vacant and soon-to-be-empty land.

## What might principled and strategic intervention in this part of Buffalo look like?

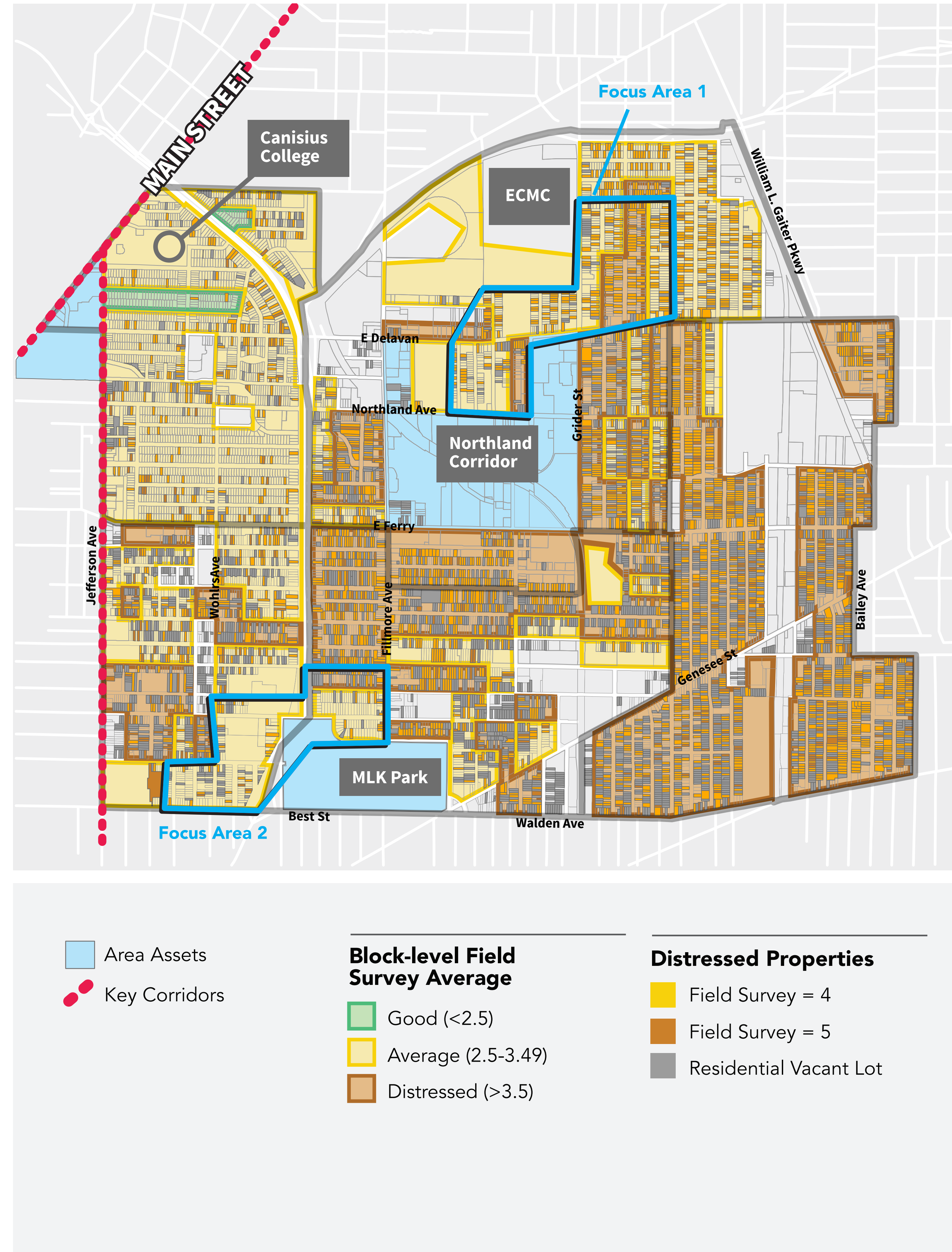
- Select areas of focus that include or are adjacent to key assets. Place a particular emphasis on preventing further decline on blocks that are mostly stable but are threatened by several distressed properties.
- Within a focus areas such as "1" and "2", patiently deploy tools such as the following:
  - Pursue aggressive code enforcement and compliance assistance
  - Extend home rehab loans to property owners on stable blocks that currently demonstrate active investment in their home
  - Expand homeownership opportunities for low- and moderate-income buyers
  - Acquire and demolish unsalvageable properties — especially on blocks that are otherwise stable
  - Implement vacant land management plan with neighborhood stakeholders

### Focus Area 1

| Measures to Track | Baseline | Outcomes to achieve |
|---|---|---|
| *% of properties in moderate or severe distress* | 40% | 25% |
| *% of blocks with at least two distressed properties* | 100% | 50% |
| *% of properties in good or excellent condition* | <1% | 40% |
| *% of single family homes owner-occupied* | 66% | 75% |
| *# of residential vacant lots* | 55 | 175 *(with vacant land management plan)* |

### Focus Area 2

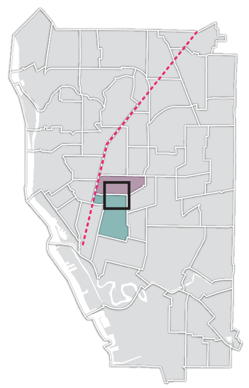
| Measures to Track | Baseline | Outcomes to achieve |
|---|---|---|
| *% of properties in moderate or severe distress* | 19% | 5% |
| *% of blocks with at least two distressed properties* | 80% | 25% |
| *% of properties in good or excellent condition* | 30% | 40% |
| *% of single family homes owner-occupied* | 66% | 75% |
| *# of residential vacant lots* | 86 | 115 *(with vacant land management plan)* |



INTERVENTION DEMONSTRATION D

# SUB-MARKET TYPE: Soft and Low Demand

**Context**
The Fruit Belt is at the juncture of Soft and Low sub-markets but is adjacent to the growing Buffalo Niagara Medical Campus — making it a place where the market can be expected to strengthen over the coming decade. The challenge is to continue improving the physical condition of a neighborhood that has numerous vacant lots and distressed properties while ensuring inclusivity.



**Focus Area**

| Measures to Track | Baseline | Outcomes to achieve |
|---|---|---|
| *% of properties in moderate or severe distress* | 19% | 10% |
| *% of blocks with at least two distressed properties* | 45% | 20% |
| *% of properties in good or excellent condition* | 31% | 40% |
| *% of single family homes owner-occupied* | 69% | 80% |
| *# of residential lots vacant* | 192 | 125 *(with vacant land management plan and land trust stewardship of new development)* |

## What might principled and strategic intervention in this part of Buffalo look like?

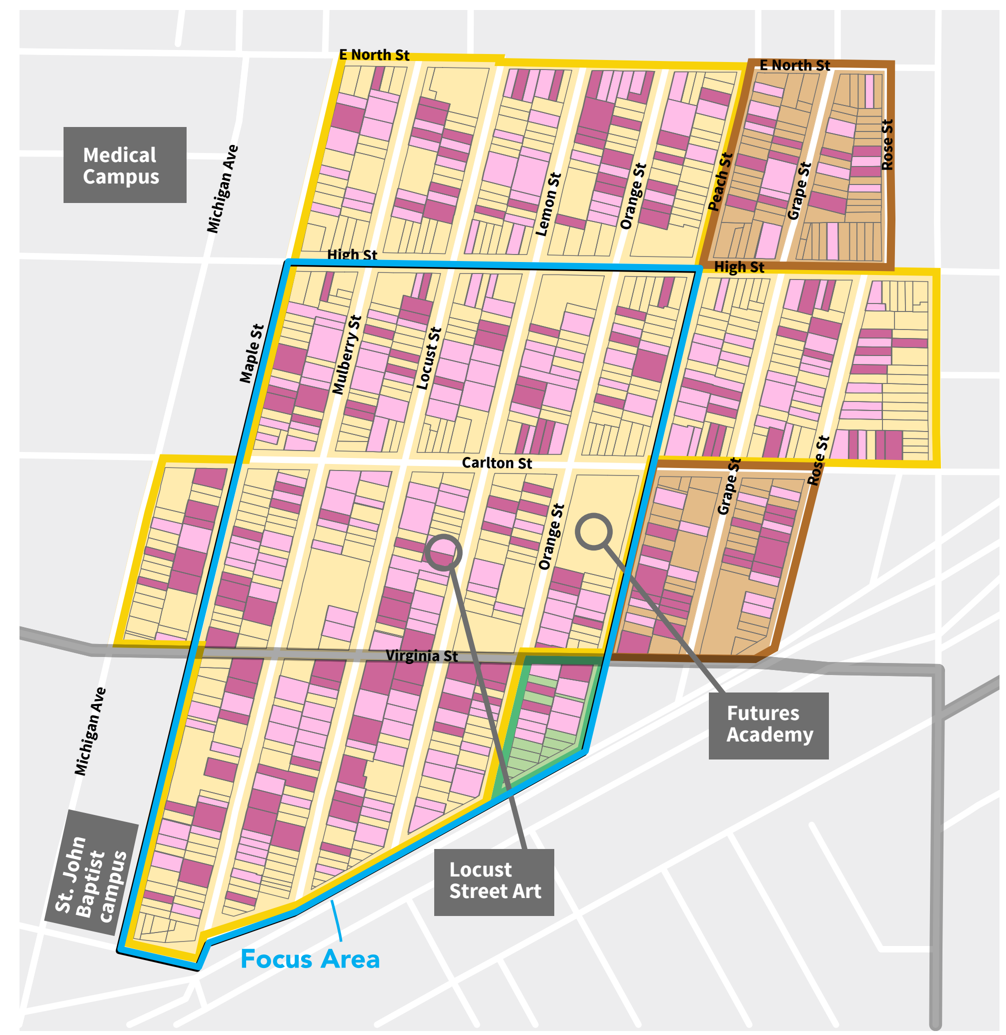
- Select an area of focus that includes or is adjacent to key assets. Areas where stronger markets transition to softer markets are ideal as they represent opportunities to protect areas with momentum while spreading confidence to areas where private investment is needed to improve housing conditions.
- Within the area of focus, patiently deploy tools such as the following:
  - Deposit city-owned vacant lots into a community land trust to ensure long-term affordability of future development; develop lots as demand and funding allow while implementing vacant land management plan with neighborhood stakeholders
  - combine with scattered site infill of new affordable units
  - Require new subsidized development to follow a mixed-income model
  - Pursue aggressive code enforcement and compliance assistance
  - Extend home rehab loans to property owners on stable blocks that currently demonstrate active investment in their home

**Block-level Field Survey Average**
- Good (<2.5)
- Average (2.5-3.49)
- Distressed (>3.5)

**Potential Target Area Parcels**

Vacant Lots
- Vacant Land (Commercial)
- Vacant Land (Residential)

**Distressed Properties**
- Field Survey = 4
- Field Survey = 5


**Block-level Field Survey Average**
- Good (<2.5)
- Average (2.5-3.49)
- Distressed (>3.5)

**Parcels Owner Type**
- Owner Occupant
- Investor-owned
- Large Multifamily and Mixed Use

# Buffalo Housing Opportunity Strategy

2017

czb

Prepared by czb LLC