NEIGHBORHOOD REINVESTMENT CORPORATION

Early Conclusions From The

Mixed Income Demonstration Program

Draft revised June 13, 2002

A special five million dollar mixed income demonstration program was included in Neighborhood Reinvestment Corporation's FY 2002 appropriation, to explore approaches for serving households with incomes under 30% of area median income ("extremely low-income" or "ELI" households) in mixed-income communities. This paper shares highlights of the seventeen grant applications, fourteen of which have been selected for funding. Also included are working conclusions from our experience to date with the mixed income demonstration program.

Executive Summary

The Mixed Income Demonstration Program

Every year, NRC makes grants to community based nonprofit NeighborWorks® Organizations. For multifamily housing, the primary grant program is the Multifamily Initiative Capital Grant, which provides "gap" funding to make affordable multifamily development and preservation feasible. Many Capital Grants support properties that receive federal and state assistance such as Low Income Housing Tax Credits, Rural Housing Service subsidies, and Section 8 rental assistance, but that need additional grant funds in order to be viable.

For 2002, using funds from a special mixed-income demonstration program appropriation from Congress, NRC offered Mixed Income grants as well, to enable properties to include units affordable to households at or below 30% of area median income ("extremely low income" or "ELI" households). Because ELI households can afford only very limited rents, traditional subsidies such as the Low Income Housing Tax Credit ordinarily cannot reach these households. NRC designed the Mixed Income grant program to allow the widest possible range of approaches. Requirements for eligibility included site control and commitments for all other needed funding. The maximum grant was the lesser of $750,000, or $40,000 per ELI unit. Applicants could propose any income mix that included at least five percent ELI units. No applicant proposed more than fifty percent ELI units[1].

NRC also co-sponsored, with the Fannie Mae Foundation, a national symposium in April 2002 in Chicago, to explore best practice solutions for these types of mixed income affordable rental housing developments. The results of the Chicago Symposium helped to inform the working conclusions presented in this paper.

Highlights of the 17 Grant Applications

Range of approaches. The applicants proposed a wide range of approaches for creating mixed income communities, including:

- *Rent reduction.* Some applicants proposed to use the grant funds to reduce debt, thereby allowing the property to charge lower rents.
- *Mixing Up as well as Down.* One applicant converted some tax credit units to market rate, creating an income mix ranging from under 30% of AMI to over 80% of AMI.
- *"Split Subsidy[2]".* Some applicants worked with their local public housing authorities to make units available to Section 8 voucher recipients. Some applicants proposed using their grant funds to reduce debt and rents (thereby

[1] As noted below, the overall income range varied widely. All proposals offered a mix of incomes up to 50%-60% of area median income. Some proposals offered income mixes that extended above 80% AMI.

[2] Approaches that mix tenant-based rental assistance with project-based subsidies (such as the Low Income Housing Tax Credit) are sometimes termed "split subsidy" approaches.

reducing the cost of the Section 8 subsidy). Other applicants proposed utilizing their grant funds to fund services and/or more intensive management, to support the mixed income community.

- *Rental and Homeownership.* One applicant proposed to include homeownership units within the mixed income rental community.

The Applications Reflected Real Estate Diversity As Well. The applicants represent a full range of geographic areas. The proposed developments varied from 14 to 420 units. Proposals included acquisition and modest rehab, acquisition and major rehab, and new construction.

NRC's Working Conclusions on Mixed Income Policy

1. Mixed Income Subsidies Must Be Flexible

Broad Guidelines, Not Formulas. Federal or state subsidies to facilitate mixed income rental housing should combine broad policy guidelines with maximum flexibility for property-specific decisions. Variables that need to be tailored to the particular neighborhood and property context include:

- The overall range of incomes.
- The number of units targeted to each income range.
- The extent to which non-housing services and more intensive management will be needed.

Avoid Conflicting Requirements. Because mixed income subsidies will almost always be combined with other subsidies, and will generally not be the dominant form of subsidy, mixed income subsidies should accept the compliance and monitoring provisions of the primary subsidy program(s). Similarly, mixed income subsidies should avoid requirements that would conflict with commonly utilized subsidies such as the Low Income Housing Tax Credit, HOME, CDBG, Rural Housing Service programs, Section 8, and the FHLB AHP.

2. Each 30% AMI Unit Requires Significant Subsidy

Mixed income subsidy programs will need to allocate significant amounts of subsidy per unit (but the subsidy would be applied only to a limited number of units per property).

The Maximum ELI Rent is $387 Below the Maximum Tax Credit Rent. Using 2001 national average incomes, and assuming a 30% housing cost burden, a two person household at 30% AMI needs a $387 per unit per month reduction in rent, below the rent that would be affordable to an otherwise similar household at 60% AMI[3].

[3] Detailed calculations are provided in the expanded discussion below.

A Typical ELI Unit Requires $50,000 Per Unit Additional Subsidy. A $387 per unit per month rent reduction corresponds to a reduction in supportable debt (below the level supportable with rents affordable at 60% AMI) of roughly $50,000 per ELI unit. Of course, this additional subsidy would be needed only for the ELI units. For example, in a 50 unit property with 10 ELI units (20%), the additional subsidy needed would be $500,000 ($10,000 per total unit, $50,000 per ELI unit).

However, the Grant Applicants Were Able to Work Within A $40,000 Per Unit Limit. By comparison to the $50,000 per unit discussed above, the mixed income demonstration program allowed a maximum grant of $40,000 per unit. In general, the NRC grant applicants were able to work within this limitation, because the properties – before adding the mixed income grants – were already affordable to households with incomes somewhat below 60% AMI. Thus, in practice, the rent reduction needed to achieve affordability for ELI households was less than the illustrative $387 discussed above.

3. Mixed Income Subsidies Should Be Separate From LIHTC

LIHTC allocating agencies confirm that a primary objective is maximize the number of units produced. However, maximum production is not consistent with producing *mixed income* properties, in which each 30% AMI unit requires roughly twice as much subsidy as a 60% AMI unit.

In theory, these objectives could be reconciled by a modification to the federal guidelines of the tax credit program. For example, a change in guidelines could result in the widespread use and acceptance of a productivity measurement approach in which one ELI unit had the same weight as two units affordable at 60% AMI. However, it would be difficult to reconcile that approach with the need for flexibility outlined above, or with the generally flexible and non-prescriptive nature of the LIHTC program.

Accordingly, NRC believes that a better approach would be to create a mixed income subsidy program external to the tax credit program. One approach, as recommended by the Millennial Housing Commission, is to provide additional funding for this purpose under the HOME program.

4. There Are Many Approaches for Reaching People At or Below 30% AMI

Any mixed income program should allow for a wide range of techniques for achieving mixed income communities.

The grant applications reflected a wide variety of mixed income approaches. Many applications proposed a combination of approaches. Approaches included:

- Reduction in mortgage debt to allow rent reductions.
- Use of rental assistance (tenant based or project based) to provide additional affordability below 30% AMI.
- Addition of non-housing services, to support the viability of the mixed income community.

- More intensive management, to support the viability of the mixed income community.
- Mixing homeownership with mixed income rental.

Additional Information Attached

- More detailed discussion of each of the four working conclusions
- Highlights of the grant applications
- Excerpt from the Chicago Symposium “framing paper”, describing potential mixed income approaches

More Detailed Discussion of Working Conclusions

1. Mixed Income Subsidies Must Be Flexible

Perhaps the strongest conclusions from the Chicago Symposium speak directly to this issue:

- The prime objective should be a mixed income neighborhood, not just a mixed income development. The "right mix" is a function of the existing mix within the neighborhood, the combined ability of the neighborhood and the proposed development to attract a wider mix of incomes, and the combined ability of the neighborhood and development to sustain a wider mix of incomes over time.
- The "right mix" may be narrow or wide, depending on neighborhood-specific and property-specific considerations.
  - For some very-low-income neighborhoods and developments, only a relatively narrow mix of incomes will be feasible. In these settings, it is unrealistic to expect to reach much above 50% of area median income; yet, achieving a wide mix of incomes up to 50% of area median would be highly positive for the neighborhood.
  - In other neighborhoods, it will be feasible and desirable to attract households with incomes well above 80% of area median.

The range of approaches proposed by the grant applicants provides additional confirmation that a mixed income subsidy should be as flexible as possible:

Overall Range of Incomes Can Be Quite Wide. The following illustrate the relatively wide income mixes proposed in some of the grant applications:

Grant Applicant	% of AMI		
	Under 30%	30% to 60%	Above 60%
Applicant #3	18%	62%	20%
Applicant #7	13%	75%	13%
Applicant #9	6%	43%	51%

Mixed Income Subsidies Must Permit Creative Approaches. For example:

- Applicant One proposes to develop single family homes under LIHTC, with a 15 year lease-to-purchase program.
- Applicant Twelve is an affordable rental housing development in a planned community that will ultimately contain 300 multifamily units (all affordable) and 635 single family homeownership units (half affordable to households below 80% AMI).

Subsidies Should Permit Flexible Strategies to Create and Sustain Stable Mixed Income Communities. Many of the grant applicants proposed more intensive property management and/or additional non-housing services. This confirms research[4] that found correlations between successful mixed-income communities and communities with very active, very high quality property management. Said differently, although property management is important in all apartment properties, there is good evidence that property management is particularly important in mixed income properties.

Anticipate and Avoid Conflicts Between Subsidies. Because mixed income subsidies will almost always be combined with other subsidies, and will generally not be the dominant form of subsidy, they should avoid requirements that would conflict with commonly utilized subsidies such as the Low Income Housing Tax Credit, HOME, CDBG, Rural Housing Service programs, Section 8, and the FHLBB AHP. Examples of existing conflicts include:

- CDBG **[and the Community Reinvestment Act?]** requires 51% low-income occupancy, but that may not be the "right mix" for a particular setting.
- Subsidy programs vary in their basic compliance requirements. These areas include: income eligibility, preferences and targeting, certification and recertification of incomes, length of use agreement, use agreement requirements and flexibility, and treatment of households whose income rises after admission.

Potential solutions include:

- *Hierarchy of Compliance.* One potential approach is to accept the compliance and monitoring provisions of the dominant subsidy. The Millennial Housing Commission refers to this as a "hierarchy of compliance" approach.
- *Standard Waivers.* Another potential approach is to provide that certain otherwise applicable requirements do not apply when the mixed income subsidy is used in combination with specific subsidy programs.

2. Each 30% AMI Unit Requires Significant Subsidy

Mixed income subsidy programs will need to allocate sufficient amounts of subsidy per ELI unit, but these will comprise only a limited number of units per property.

Illustrative Example: $50,000 Incremental Subsidy Cost Per ELI Unit. As detailed in the following table, using 2001 national average incomes, and assuming a 30% housing cost burden, a two person household at 30% AMI needs a $387 per unit per month reduction in rent, below the amount that would be affordable to an otherwise similar household at 60% AMI. This corresponds to an additional subsidy of roughly $50,000 per unit, <u>over and above</u> the subsidy necessary to produce affordability at 60% AMI.

The national median household income was $62,300 in 2000. The metropolitan area whose income was closest to the national median was Denver ($62,100). The following table shows the affordable housing costs (rent plus utilities) for Denver for 2001, and the

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[4] See Cityscape, Volume 3, Number 2, especially the articles by Brophy and Smith, and Khadduri and Martin.

reduction in supportable debt that would occur by making a unit affordable at 30% AMI instead of 60% AMI.

2001 Two person household income for Denver CO		
At 60% AMI	$30,900	
At 30% AMI	$15,450	
Rent and Utilities affordable (30% cost burden)		
At 60% AMI	$773	
At 30% AMI	$386	
Reduction in Gross Potential Rent	($4,644)	$387
Allowance for Vacancy Loss	232	5%
No Change in Operating Expenses	0	
No Change in Reserve Deposits	0	
No Change in Coverage	0	
Reduction in Debt Service	($4,412)	
Reduction in Supportable Debt	($50,107)	
8% interest rate		
30 year term		

This example assumes that the operating expenses and Replacement Reserve deposits would not change by virtue of the change in resident profile[5]. This example also assumes that the dollar level of debt service coverage / operating margin / financial cushion would also remain the same[6].

[5] One might argue that the property management fee, typically expressed as a percentage of collected rents, would decline. However, it is clear that the property management workload would be the same or larger. Thus, the property management fee should stay the same in dollar terms (higher in percentage terms).

[6] This assumption is based on the observation that the level of financial volatility in the development is the same, even though, as a mixed income property, the net operating income is lower. Said differently, a sophisticated lender likely would require a higher debt service coverage ratio for the mixed income property, so as to achieve the same dollar level of financial cushion despite the lower net operating income.

Per Unit, the ELI Subsidy Is Roughly The Same As The LIHTC Subsidy. The $50,000 incremental subsidy needed to turn a 60% AMI unit into an ELI unit is roughly comparable to the LIHTC equity received by a typical new construction project:

Total Development Cost	$80,000	per unit
LIHTC Eligible Basis	$68,000	85% of TDC
Applicable Fraction	100%	of units are LIHTC
Qualified Basis	$68,000	
Actual LIHTC percentage	8.75%	published monthly
LIHTC period	10	years
Gross credits	$59,500	
Net syndication price	$0.75	per dollar
Net equity proceeds	$44,625	per unit

The amounts in the preceding table represent typical amounts, for new construction developments in moderate cost areas.

As a rule of thumb, then, one ELI unit requires about twice as much subsidy as a 60% AMI unit. Said differently, by roughly doubling the investment required to produce affordability at 60% AMI, a sponsor could produce affordability at 30% AMI.

ELI Requires Large Subsidy Per Unit, For A Small Number of Units. The following table illustrates the subsidy cost per unit and as a percentage of TDC, for a hypothetical mixed income development, using the illustrative amounts from the previous tables.

	ELI Units	Non ELI Units	All Units
Number of Units	10	40	50
TDC per unit	$80,000	$80,000	$80,000
TDC	$800,000	$3,200,000	$4,000,000
LIHTC subsidy per unit	$44,625	$44,625	$44,625
ELI subsidy per unit	$50,107	$0	$10,021
Total subsidy per unit	$94,732	$44,625	$54,646
Total subsidy	$947,320	$1,785,000	$2,732,320
% of total development cost	118%	56%	68%

This table illustrates two important points about the subsidy cost of mixed income developments:

- On a blended basis, the incremental subsidy needed to produce a mixed income property is modest, compared to the LIHTC subsidy.
- However, the ELI units themselves will often require subsidy that is *greater* than their allocable share of total development cost. In other words, a typical ELI unit has a negative ability to support debt[7] and must be cross-subsidized by the non-ELI units in the property.

The $40,000 Per Unit ELI Subsidy Limit Proved Workable in the Grant Program. As noted in the executive summary, the grant applicants found ways to work within the $40,000 per unit limit that NRC placed on the mixed income grants. Of course, this forced the applicants to select projects that already provided affordability below 60% AMI, thereby reducing the amount of rent reduction necessary to reach households at 30% AMI. The $40,000 per unit limit most heavily impacted applicants in high rent / high cost areas. Accordingly, future programs would be well advised to build in flexibility in the maximum grant amount, taking into account the very wide local variations in rents and costs across the nation.

Sustainability. Sustainability, that is, the objective of structuring affordable rental housing so that it will be viable on a long-term basis, without needing injections of future federal subsidies, is a key element in NRC's approach to affordable multifamily housing. Accordingly, NRC was pleased to see the Millennial Housing Commission recommend that sustainability be elevated as a national policy goal, and placed on an equal footing with the goal of affordability to taxpayers. However, the grant applicants reported that key elements of sustainability were not acceptable to other programs that provided funds to the properties. In particular, the typical subsidy programs used by the grant applicants:

- Would not allow reserve deposits that were adequate to fund the properties' reasonably foreseeable long-term capital needs.
- Would not allow asset management fees that recognized the legitimate costs of being the owner[8].
- In some cases, would not recognize the level of operating expenses that were actually needed to produce and sustain viable communities.

NRC understands the pressure for producing the maximum number of units that leads to these results. However, we also believe that these approaches are counterproductive and must be changed. Accordingly, NRC believes that the sustainability message needs to be more widely communicated and incorporated into the day-to-day practices of all affordable housing professionals. There may also be a

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[7] That is, a negative Net Operating Income.

[8] Some proposals were able to include some sort of asset management fee, but none were able to include an asset management fee meeting NRC's guidelines: $200 per unit per year, carried "above the line" in the underwriting (i.e., treated as an operating expense for purposes of loan and property underwriting), but payable "below the line" from operations (i.e., a performance based fee, payable only if the property achieves financial and non-financial performance benchmarks).

need to incorporate sustainability into the federal guidelines for programs such as LIHTC, HOME and CDBG.

3. Mixed Income Subsidies Should Be Separate From LIHTC

As noted above, the amount of LIHTC subsidy needed to produce a unit affordable at 60% AMI would need to be doubled, or more, to make that same unit affordable at 30% AMI. Because so many potential mixed-income developments already use the LIHTC, one approach for funding mixed income properties is to expand the amount of funding in the LIHTC program[9]. However, this would need to be coupled with an additional federal guideline providing that the increased credits would be used for creating ELI units.

At the Chicago Symposium, NRC discussed this possibility with representatives of allocating agencies. In general, allocating agencies feel great pressure to produce the maximum number of units, and thus would need to devise complex new performance metrics in order to incorporate a second objective of facilitating mixed income communities.

- It would be necessary to recognize the greater cost, and greater value, of creating units that are affordable to lower income households. For example, the productivity of allocating agencies could be measured by "scoring" units produced according to the level of affordability provided. Using this approach, one ELI unit would have the same "score" as two units that were affordable at 60% AMI.
- It would also be necessary to recognize the greater up-front cost (and lower ongoing cost) of producing sustainable properties that will not require further subsidies in future years. For example, the productivity of allocating agencies could reflect the extent to which properties funded in prior years are achieving their financial and non-financial performance objectives (e.g., positive cash flow and adequately funded reserves).

Although all felt it would be possible to develop such new performance measurement systems, there was a general sense that it might be best to keep the LIHTC program (which is working quite well) in its current form, and to use a separate subsidy mechanism to facilitate mixed-income development and preservation.

4. There Are Many Approaches for Reaching People At or Below 30% AMI

A list of potential approaches is attached. This list was developed for the Chicago Symposium. It is evident that any national strategy needs to be quite flexible, in order to permit this wide range of approaches.

[9] This approach would also require changes to allow a higher amount of credits. One such approach is to allow a credit percentage higher than 9%. Another is to simply award the credits without regard to eligible basis. Under either approach, an allocating agency would award additional credits to mixed income properties, over and above the amount that would be required for affordability at 50%-60% AMI.

In closing, NRC has the following comments on particular approaches, based on results from the grant applications and from the Chicago Symposium:

- *Debt Reduction.* This approach is quite feasible and is relatively easy to calculate. Simply translate the needed rent reduction into a matching reduction in debt service costs, and re-size the first mortgage accordingly. The majority of the grant applicants used this approach.
- *Community Viability Over Time.* Many of the grant applicants emphasized the need to strengthen management and the need to add non-housing services, to ensure that the mixed-income community would thrive over the long term.
- *The "Right Mix" Varies.* In general, achieving a mixed income neighborhood should be the primary goal.
- *"Thrifty Vouchers"*[10]*.* Section 8 (project based and tenant based) is a highly useful approach for creating ELI units. If the proposed "thrifty voucher" program had been available, we believe many grant applicants would have pursued it.

Sustainability. NRC's final comment is to express concern that grant applicants reported that sustainability was difficult to achieve, because the funding environment still prefers to produce more units now, with inadequate financial viability. History has shown that the needed future subsidies do not arrive in time, thereby negatively impacting communities and residents. Moreover, there is strong evidence, documented elsewhere (particularly for the Millennial Housing Commission), that the traditional (non sustainable) approach is also inferior as a purely financial strategy, because the "transaction costs" involved in future work-outs / bail-outs are so high relative to the more modest costs of funding properties adequately from the beginning.

[10] Various legislative proposals have made the point that when §8 vouchers are used in properties that already have low rents, the voucher cost is quite low, hence the term "thrifty voucher". NRC points out that combining debt reduction (which allows rent reduction) and §8 vouchers creates a powerful combination: units that are affordable long-term to households at, say, 40% to 50% AMI and that are also affordable short-term to ELI households who are §8 voucher recipients.

Key Characteristics of Grant Applications

Neighborhood Reinvestment Corporation
Mixed Income Demonstration Grant Program
Key Characteristics of Grant Applications

Applicant	Awarded?	Total # Units	Units At or Below 30% AMI	Units >30% to 60% AMI	Units Above 60% AMI	Total Devel. Cost per Unit	Grant Amount	Grant Amount per 30% Unit	State	Target Population
One	Yes	25	10	15	0	$142,262	$400,000	$40,000	OH	Families
Two	Yes	70	4	66	0	$199,632	$160,000	$40,000	MA	Families
Three	Yes	65	12	46	7	$213,694	$430,000	$35,833	MA	Special Needs
Four	Yes	60	15	44	1	$242,974	$460,000	$30,667	MA	Families
Five	No	36	2	34	0	$104,350	$80,000	$40,000	NY	Families
Six	Yes	30	5	24	1	$113,976	$160,000	$40,000	NY	Families
Seven	Yes	24	3	18	3	$94,656	$120,000	$40,000	WI	Families
Eight	Yes	36	6	30	0	$144,857	$240,000	$40,000	IL	Families
Nine	Yes	70	4	30	36	$152,795	$160,000	$40,000	CA	Families
Ten	No	14	3	4	7	$75,431	$75,000	$25,000	OR	Families
Eleven	Yes	420	9	308	103	$47,962	$350,000	$38,889	AZ	Families
Twelve	Yes	156	8	148	0	$110,974	$320,000	$40,000	CO	Families
Thirteen	No	30	12	18	0	$141,578	$480,000	$40,000	CO	Families
Fourteen	Yes	200	10	190	0	$78,748	$400,000	$40,000	TX	Elderly
Fifteen	Yes	50	10	40	0	$97,537	$350,000	$35,000	NC	Families
Sixteen	Yes	40	20	20	0	$80,570	$600,000	$30,000	NC	Families
Seventeen	Yes	74	5	69	0	$162,200	$200,000	$40,000	VA	Elderly
Applied	**17**	**1400**	**138**	**1084**	**178**	**$98,547**	**$4,985,000**	**$36,123**		
		100%	**10%**	**77%**	**13%**					
Awarded	**14**	**1320**	**121**	**1048**	**151**	**$97,656**	**$4,350,000**	**$35,950**		
		100%	**9%**	**79%**	**11%**					

Excerpt from Framing Paper for April 2002

Chicago Symposium on Mixed Income Communities

Approaches. A number of approaches hold out the potential for reaching households at or below 30% AMI. Some approaches minimize the rents required to make the property feasible. Others directly subsidize the lower-income households.

- **Acquisition of Low Value (Regulated or Unregulated) Affordable Apartments.** Ability to serve a mixed income clientele is supported by the low acquisition cost, which in turn requires low amounts of debt, making the property feasible at relatively low rents.
- **Subsidized Acquisition and Light Rehab.** Mixed income is supported by moderate acquisition cost plus capital grants (LIHTC, LIHTC plus HOME, …). This approach also involves low debt service costs, making the property feasible at relatively low rents.
- **Subsidized New Construction / Substantial Rehab.** Mixed income is supported by capital grants. This approach requires a larger amount of capital grant per unit, to achieve the same level of affordability as the previous approach.
- **§8 Vouchers (Project Based, "First Use", or Tenant Based).** Mixed income is supported by vouchers, plus (perhaps) capital grants to get rents down to the level reachable by vouchers. All units will rent at or modestly below market rents, and the units with vouchers will be occupied by extremely-low-income households who pay an affordable amount for rent and utilities (with the voucher paying the rest). Using a partial – Section – 8 "split subsidy" approach[11] seems particularly promising for achieving and sustaining a mixed income profile, as it avoids the potential for over-concentration of extremely low-income households while maintaining excellent affordability to ELI households.
  - **Project Based Vouchers.** One approach is to tie the vouchers to the ELI units.
  - **"First Use" Vouchers.** Another approach is to allocate a voucher to each unit, on the condition that the household move into the unit after completion of construction / rehab. Afterwards, households may relocate and keep the voucher.
  - **Tenant Based Vouchers.** Under this approach, the owner would work with the PHA, with an objective of housing some number of voucher holders who choose to live there.

[11] The term "split subsidy" indicates that some units may have capital subsidies (e.g., LIHTC) while those same units (or others) may have rental assistance (e.g. §8).

- **Internal Cross Subsidy.** A portion of the rents from high-income households can be used to reduce rents on low-income units.
- **Mixed-Income Retrofit of Market Properties.** A strategy rather than an approach (various mixed income approaches could be applied to such a property), this starts with a market-rate property and introduces a mixed-income component.
- **Mixed-Income Retrofit of Concentrated-Poverty Properties.** The counterpart to the previous strategy is to introduce a higher-income / close-to-market-rent component into a formerly concentrated-poverty property. Many HOPE VI redevelopments follow this paradigm[12].
- **Scattered Sites.** By scattering small properties, reserved for and occupied by ELI households, in otherwise non-poverty neighborhoods, a mixed income profile can be achieved at the neighborhood level even though the properties themselves may be 100% ELI. There is a strong track record of success in rural areas in particular, with scattered duplexes and single-family rentals. This could include a mix of rental and homeownership units.
- **Mixed Buildings.** ELI buildings could be alternated with market-rent buildings within the same property. There is some evidence, however, that this approach is likely to lead to the ELI buildings being stigmatized. This approach also more or less commits the property to a particular mix that may or may not be appropriate in the future. Property management professionals express concern that LIHTC rules drive many partial-LIHTC properties into this approach. Thus, this approach, although feasible in theory, is disfavored by practitioners.

[12] HOPE VI has been less successful in preserving the total number of ELI housing opportunities. Often, a HOPE VI development produces fewer total units than were demolished, with only a portion of the replacement units being targeted for ELI households. Supporters of HOPE VI argue that the value of removing a failed property and creating a successful one outweighs the loss of ELI housing opportunities. Also, typically many of the pre-HOPE-VI units typically were vacant, so that the actual loss of ELI opportunities is not as large as it may appear.