Exploring the Contribution of Historic Preservation to the Persistence of Poverty: Developing Affordable Housing in Savannah, Georgia

By

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This project was supported with a grant from the University of Kentucky Center for Poverty Research through the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, grant number 5ASPE417-04. The opinions and conclusions expressed herein are solely those of the author and should not be considered as representing the opinions or policy of the UKCPR or any agency of the federal government.

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Chapter I Introduction

Background

Efforts to understand Southern poverty: Study on Persistent Poverty in the South (Carl Vinson Institute, 2003) highlight the importance of developing a more comprehensive understanding of the persistence of poverty in the South. The Study on Persistent Poverty in the South (SPPS) found that the Southeastern region of the United States is characterized by high levels of persistent poverty. Georgia is home to 38% of the regions' poor. The study defines poverty according to a county's average household annual income, and defines persistent poverty according to the level of income over three decades- 1980, 1990 and 2000.

The selection of rural counties as a spatial unit certainly provides its study benefits. However, in the urban environments where poverty is not so easily associated with the historical decline of the cotton market in Georgia, a need exists to explore the nature of poverty in smaller spatial units to provide recommendations for Southern urban communities. This provides an opportunity to explore southeast urban areas having a rate of poverty and a pattern of persistence similar to those in rural areas.

Considerations of smaller urban spatial units also facilitate the identification of specific barriers (e.g. availability of affordable housing) that inhibit an individual's rise from poverty. It is widely accepted that a person's ability to gain access to and maintain affordable housing is an important issue because the lack thereof impedes economic mobility and can result in shelter poverty, overcrowding, displacement, and psychological problems for residents (Gilderbloom and Appelbaum, 1988; Stone, 1993). Also accepted is that public subsidies are needed to develop affordable housing, described as *both* a “basic human need and “a market commodity produced by a complex and politically influential industry” (Orlebeke, 2000).

Nearly one third of the households in poverty reside in homes that are 50 years or older or considered historic (National Trust, 2004; Fannie Mae Foundation, 2001). Such housing units do not exist within traditional public housing complexes but dominate the urban, inner core of many U.S. cities such as Savannah, Georgia. The poverty rate within the city of Savannah tends to be at a rate of at least one times that of Chatham County and one and a half times that of the state of Georgia. As for its persistence, poverty continues to plague a significant portion of residents within the city limits (e.g. 1970: 26.5% of population at/below poverty; 1980: 22.4%; 1990: 22.6%; 2000: 21.8%) (U.S. Census Bureau, 2004).

Historic preservationists argue that rehabilitated housing stock can be used to produce low-income housing for the urban poor and that preservation incentives can help attract investment in such efforts (Fannie Mae Foundation, 2000). However, historic preservation and its practices are noticeably absent from the discussion on affordable housing production and its contributions to the persistence of poverty, particularly in the Southeastern cities.

Basis for Study

Beyond the basic discussion of housing cost burden on the poor, challenges also exist regarding the rehabilitation and production of housing units affordable to those earning well below the median income level. These challenges lead to barriers to the production of affordable housing such as land assembly, infrastructure costs, use of eminent domain, sufficient existence of subsidies, diminished federal resources and policies, local development regulations and "Not in my back yard" (NIMBY) opposition (Columbus & Franklin county Consolidation Plan, 2003).

In urban centers, the age of existing housing stock also becomes a factor as these resources are valued as historic resources worthy of (re-) investment. This is where poverty intersects with historic preservation and its practices. It, therefore, merits discussion on historic preservation's contributions to persistent poverty and housing the poor, especially in Southeastern urban centers. The city of Savannah, Georgia, has more structures built before 1939 than any other city in the state of Georgia (Chatham County-Savannah Comprehensive Plan, 2004). This fact makes poor households more likely to live in older substandard housing. The higher costs needed to maintain these households further exacerbates their poverty. Housing affordability influences where people can live which can result in concentrated, persistent poverty (Stone, 1986).

The high occupancy of historic urban housing by the urban poor increases the interaction between the poor living in older, substandard housing and historic preservation processes as private preservationists move into poor urban neighborhoods. The basis of this study is the intersection of poverty and historic preservation and how their interaction influences the availability/production of affordable housing in urban areas.

Historic preservation is described as a market-oriented economic process that seeks to restore both the historic building and its market-exchange value. Its economic benefits are heavily weighted toward one part of the population, while the consequences fall to quite a different group (Smith, 1998). Stone (1993) argues that market-oriented approaches inhibit our capacity to recognize other significant housing links to poverty. Thus, utilizing an approach to affordable housing development that ignores housing's relationship to investment capital continues to impede affordable development.

On the other hand, Savannah, Georgia is among dozens of U.S. cities that have centered their recent urban redevelopments on rehabilitating and reusing historic buildings on traditional business corridors and in surrounding residential areas. Historic preservation is described as an economic catalyst responsible for billions of dollars of reinvestment (Listokin, Listokin and Lahr, 1998). It is lauded for revitalizing Savannah's urban core and its surrounding urban neighborhoods over the past four decades, and creating a $1 million tourism industry, (Listokin, et al, 1998).

With the high correlation between historically designated areas and high poverty areas, preservation economist Donovan Rypkema (2002) goes on to argue that historic preservation should be used as a mechanism to produce affordable housing and mixed income communities in these areas. He points to federal Historic Preservation Tax Incentives programs, created in 1976, for creating more than 27,000 low to moderate income apartments between 1997 and 2001 (2002, p.12). However, even with an active historic preservation process at work to make disinvested properties and neighborhoods economically attractive for investment, the production of affordable housing through historic preservation processes remains a challenge. Thus, studies of the relationship between current historic preservation practices and poverty are appropriate. In consideration of these issues, the question is raised: Do current historic preservation practices contribute to the persistence of poverty by inhibiting the production of affordable housing in Southern urban areas?

The Problem

Historic preservation involves conserving landmarks and neighborhoods deemed significant within a local, regional or national historic context (Rypkema, 2002). It also has been praised as a way to initiate community revitalization (Listokin, Listokin and Lahr, 1998). However, housing poor people is not a central objective of historic preservation (Smith, 1998). By its very nature, preservation may inhibit the process of providing affordable housing by increasing property value and market speculation thereby increasing the cost of rehabilitation. Both public and private housing developers find it difficult to produce affordable housing in an environment of growing speculation and project costs as they too must adhere to the principals of economy in such projects. Salvageable historic properties in poor historic areas can experience rates of appreciation equal to or greater than the basic market rate, thus making it unaffordable for poor residents and housing developers interested in producing affordable housing. Higher rents or sales prices that result from the preservation process exacerbate household destabilization that may contribute to the persistence of poverty, and exclude affordable housing developers who require lower acquisition and production costs. This makes developers all the more reliant upon historic preservation and affordable housing policies.

It is the contradiction between historic preservation's stimulating effect on the real estate market and the consequential cooling effect on the production of affordable housing that suggests a problem in argue that historic preservation should be used as a mechanism to produce affordable housing in urban areas. In an early philosophy statement, Savannah preservationists stated that their goal was "to augment and encourage private development, not to be in competition" and "to be the 'court of last resort' for endangered buildings" (Adler II, Adler, Jones Reiter, 1983). Specifically, historic preservation operates within the free market system to direct private funds to architecturally and historically significant buildings and neighborhoods in order to reduce perceived investment risk, improve market conditions, and create a demand for the buildings for prospective investors. It was anticipated that the free market would respond to the renewed opportunity for profitable (re)investment. It is the ability of historic preservation to leverage private capital with the promise of significant returns that makes preservation a market based tool.

According to the Savannah Gentrification Task Force, revitalization of historic housing stock within poor urban communities can often lead to gentrification – the displacement of lower-income residents by those with higher incomes (One Savannah: Report of the Gentrification Task Force, 2004). The danger then is that properties in poor, historic areas can experience rates of appreciation equal to or greater than the basic market rate, thus making it unaffordable for poor residents and affordable housing developers. Once the historic, urban housing becomes an attractive commodity (again), it is transformed from an affordable unit to one for residents of higher income. This (re) commodification of older housing stock then feeds shortage of affordable housing rather than reduces it.

Today, preservation activists and academicians call out the need to balance the private market demand for investment returns, the local government's interests in tapping the reinvestment potential within urban historic areas, and the needs of those low-income residents who live and work in the central city. The federal Historic Rehabilitation Tax Credit (HRTC) and the Low Income Housing Tax Credit (LIHTC) are the two leading affordable housing tools endorsed by national housing and preservation experts as the answer. Both incentives are based on the political and economic philosophy that the private market could meet national preservation and housing goals through the appeal of tax credits for respective investors (Polton, 1994; National Trust, 2002). Developers using the HRTC can produce housing affordable to urban poor by combining this benefit with the LIHTC (Fannie Mae Foundation, 2001). Both incentives are regulated by the IRS and are used to raise private equity capital for rehabilitation/construction activities.

Each tax credit also has its own set of the regulations (e.g. U.S. Secretary of Interior Rehab. Standards, Georgia Department of Community Affairs housing policy) that direct the development receiving either tax credit. In combining these credits, a developer must also combine their regulations, deadlines and post-completion procedures as well. Farris (2001) points out that adding another set of rules adds costs, limits who can participate, and whether or not the development can proceed.

Significance of the Problem

Savannah, Georgia is nationally known for having one of the more innovative urban historic preservation processes (Adler II, et al, 1983). It also contains the largest national landmark historic district in the nation, 2.2 square miles as well as seven other National Register historic districts within its inner city boundaries.

Of the seven National Register districts, five districts show 30-40% of their respective residents living below the poverty line, compared to the city's overall average of 22% (City of Savannah Neighborhood Profiles, 2004). The poverty level and percentage of rental units are assessed by neighborhoods, rather than historic district. The seven historic districts aforementioned include fourteen distinct neighborhoods, each with boundaries recognized by the City of Savannah. Of these fourteen neighborhoods, 13 rest within the city's Neighborhood Revitalization Strategy Area where "neighborhood quality benchmarks such as income, employment and housing standards lag furthest behind city-wide averages" (City of Savannah Consolidated Housing and Community Development Plan, 2004).

As shown in figure 1, one third of the households in eleven of the 13 historic neighborhoods live in poverty (City of Savannah, 2004; U.S. Census, 2000).
This shows a high correlation between historically designated areas and high poverty areas. Preservation economist Donovan Rypkema (2002) argues that historic preservation should be used as a mechanism to produce affordable housing and mixed income communities in such areas. However, some displacement of the poor becomes inevitable as an active historic preservation process makes substandard properties and neighborhoods economically attractive to investors seeking higher rents and higher returns.

The traditional small scale approach (less than 20 units) to historic preservation and public revitalization initiatives makes for manageable, neighborhood-level efforts and continues to predominate in Savannah and other cities for that reason. Preservationists have used smaller scale and low density efforts to protect historic housing. Both public and private entities expect that such small, concentrated ventures will spur more investment in surrounding areas. But this small scale approach does not address affordable housing concerns in high poverty, historic areas on a level sufficient enough to address housing problems for the poor, which call for larger scale and higher density in spite of spatial constraints. Another contradiction is produced by the claim that historic preservation is an effective tool for affordable housing production. Current historic preservation practices generally revolve around one or a few properties and target specific individuals for the sale, purchase and rehabilitation of older, historic housing. Savannah's preservation organization targets only vacant buildings found to be historic or architecturally significant as a matter of policy. However, affordable housing production requires larger scale land assemblage and site control in order to efficiently generate the economies of scale for feasible operation (Farris 2001, p. 21) and to meet the persistent need for such housing. Farris (2001) also points to a higher number of regulations on central city developments and on areas with historic designations as adding to the complexity of these efforts.

An affordable housing component for the city's poor may be included in preservation efforts but not at a scale sufficient to address the problems of persistent poverty. Investors' demands for high returns to offset a costly restoration or to appeal to higher-income occupants generally rule out inclusion of more affordable housing. Likewise, current urban redevelopment practices center on pulling higher income households and even businesses into historic, low-income areas. Additionally, the expiration or major alteration of government housing subsidies, such as the federal Section 312 rehabilitation loan program, are those that enabled the Savannah Landmark Rehabilitation Project also limit the possible contribution of historic preservation to affordable housing production. Blackburn (1982) wrote that this direct housing loan program was a mainstay in historic preservation and urban revitalization. With the election of Ronald Reagan in 1980, the overall urban development program's legitimacy was repeatedly questioned and its goals were shifted from housing to economic recovery in a broader sense (Richard Kujawa, 2000).

Peter Werwath (1998) warns that the success of preservation in urban revitalization is often predicated on the removal of the poor and that federal subsidies and incentives such as the LIHTC that require inclusion of low-income people must be incorporated when combining historic preservation and affordable housing production. Without it, the poor tend to drift away (Werwath, 1998).

Because of its systemic interaction with the private market, historic preservation practices generally produce the following observations:

- facilitate higher costs through various regulations and inhibits the creation of projects at a scale that could have a significant impact on persistently poor areas;
- require financial resources and knowledge of regulations that make affordable rental housing production unprofitable for developers, thus facilitating the need for funding subsidies;
- spur property value appreciation that produces market-driven gentrification and reduces affordability;
- inhibit the development of affordable rental housing thus contributing to maintaining persistently poor communities.

Housing poor people is not a central objective of historic preservation (Smith, 1998). Thus, studies of the relationship between current historic preservation practices and affordable housing production are appropriate and may yield significant recommendations on how government policy regulations can help the private market navigate the intricacies of supplying the affordable housing demand. Ultimately, the significance of this study rests in the capacity to identify public strategies that would work in a community such as Savannah to provide affordable housing at a scale needed to address persistent poverty, while also reusing historic properties that also predominate in the inner city.

Objectives of the Study

This study aims to examine how historic preservation functions within the affordable housing production process. The objective is to delineate the impact gentrification can have on low-income historic communities; illustrate current housing and preservation processes; to compare the model program – Savannah Landmark Rehabilitation Project (SLRP) – that utilized historic preservation practices to create three hundred units of low-income rental housing in Savannah Victorian Historic District to current affordable housing efforts in historic areas; to identify regulatory and other barriers encountered in applying historic preservation practices, and applying for incentives such the rehabilitation and housing tax credits; to categorize those elements missing from local, state, and possibly federal policies and programs that enhance affordable housing production within urban historic areas.

Through an examination of current housing developments in Savannah, this study will identify housing development and financing practices and their ability to meet municipal housing goals, such as those set forth in the city's Consolidated Housing and Community Development (HCD) Plan.

This study will also examine the Savannah Landmark Rehabilitation project as a model for successfully joining historic preservation and affordable housing. In the late 70's, preservationists achieved what today's advocates espouse- revitalizing historic housing without the displacement of the poor. The SLRP curbed gentrification by combining both private and public investment to preserve the stock of affordable housing within a historic district regulated under local preservation ordinances.

In a comparative analysis, this study will also look at the economic and regulatory context in which these various projects were created and functioned. The production of affordable housing in historic inner cities such as Savannah is unique due to the overarching historic preservation processes governing rehabilitation and new infill construction. Initial observations of preservation processes reveal an expectation of inflated acquisition and project costs. Complex zoning laws, along with historic preservation regulation can limit the allowable number of units, thereby, reducing the developers' "profitability" and the overall level of attraction for developing an affordable housing project. The developer's need to minimize costs and maximize profits prevails over the persistent need and growing demand for decent affordable housing in these areas.

The study will discuss the public policy (e.g. 1986 Tax Reform Act) and the incentive program regulations (e.g. U.S. Secretary of Interior Rehabilitation Standards, Georgia DCA housing policy) that govern historic rehabilitation and affordable housing projects receiving government incentives. Mandatory investment minimums and limits on the types of property eligible for the tax credit incentives are pointed out as problematic regulations by developers and analysts. The requirement that developers deduct one awarded tax credit from another credit seems to negate the benefits of combining the historic rehabilitation and housing tax credits. If the low-income rent and tax shelter benefits are insufficient to support the project, the investors must use other types of financing to ensure project viability or face a recapture of the tax credits.

Local policies or the lack there of, will be discussed as to their role in supporting the use of historic preservation to produce affordable in the central city. Municipal strategies are also emerging with the recognition that housing rehabilitation (as opposed to demolition) benefits local tax base, with encouragement from revised federal and state policies and funding goals. In 2001, HUD agreed to maximize preservation and rehabilitation within its funded projects. Later, it announced several historic preservation activities qualified for HUD/ Community Development Block Grant (CDBG) funding. The CDBG program provides annual grants to cities for development activities that benefit low- and moderate-income persons. However, the city's Public Development bureau actively enforces the unsafe building law which allows it to demolish buildings found to be derelict. In the city's Neighborhood Revitalization Strategy Area, about 50 percent of the structures were categorized as "dilapidated" and "in need of demolition" (HCD, p.40). More specifically, the historically designated neighborhoods at the city's core were found to have 83 percent of their buildings in need of significant repair or demolition (p.41). The city's success in demolishing such buildings, on the one hand, could lead to its failure to meet its housing goals on the other.

The ability of preservation to leverage private capital with the promises of tax credits and restored market value is said to justify it as an affordable housing tool. But the federal incentive regulations require a developer to spend at least 50 percent of the property's assessed value on the rehabilitation work. This rule lessens the affordability of the finished housing for the urban poor (Werwath, 1998). And while the LIHTC requires the developer to pledge to rent to low-income households as determined by the metropolitan median household income, it also allows investors to convert the development to a market rate operation after a minimum of 15 years in the program.   Also, the housing incentive mandates only 20 to 40% of the total units be set aside for poor tenants; the balance can be available to market-rate tenants. Here, LIHTC projects reveal to be not only for housing production but driven by their total economic benefit to the investors (Polton,1994).

Addressing such contradictions or barriers would require revisiting the policies, such as HUD Section 312 or Urban Development Action grants (UDAG), that resulted in some measure of success. This research seeks to identify the problematic regulations and practices along with those best practices that enable preservation to combat rather than facilitate the persistence of poverty.

Area of Assessment

As in many other cities throughout the United States, since the 1960's, urban areas have seen drastic demographic changes in their population. Savannah, Georgia, in particular, reached its population peak in 1960 and has experienced significant population decline of approximately 20,000 since this time (United States Census Bureau, 2000). According to the Census Bureau, the South is the second fastest growing region and Georgia is the most rapidly growing state within the southern region. However, the city of Savannah has experienced challenges in capturing this population growth.

A significant component of this problem has been the characteristics of the local housing market making it difficult to compete with outerlying areas for current residents and those migrating to Savannah. The Census Bureau indicates that 52% of individuals that chose to live outside of Savannah did so as a result of housing related reasons. Much of this is related to the affordability of housing. With the Median Household Income in Chatham County being $37,752 and the average price for a home being $154,744, the affordable price for a home is approximately $41,000 below the average home sale. This represents a significant difference from the outerlying areas where the average price of a home is well within the affordability range. Thus, the conditions are set for the formation of an inner city characterized by concentrated poverty. As residents with the financial resources to support mobility locate in outerlying areas, many inner city communities become catchment areas for those who can least afford to move elsewhere.

Additionally, with more housing structures built before 1939 than any other city in the State of Georgia, with 62% of the housing stock being over 30 years old, and 27% being over 50 years old, the city is faced with an abundance of deteriorated housing. In the outerlying areas, 60% of the housing stock is under 20 years of age. A 2001 housing survey conducted by the City of Savannah, found that out of 11,227 housing structures, 74% of them required some level of repair. Thus, while the city of Savannah is widely known for its beautiful and historic architecture, this poses a dichotomy. The presence of older homes provides an excellent opportunity for historic preservation, but those living in poverty throughout these communities have their poor economic condition exacerbated because of their lack of resources. With the National Trust indicating that nearly one-third of households in poverty residing in historic homes or those older than 50 years, Savannah then is a most appropriate model for assessing the need for affordable housing and historic preservation processes. The area of focus in this research resides within the central city of Savannah, GA: Victorian Historic District, Thomas

Square District and the Cuyler-Brownsville District (see Figure 1). These three communities are characterized by high levels of poverty, high numbers of historic homes, and have varying examples of attempts to produce affordable housing in historic districts.

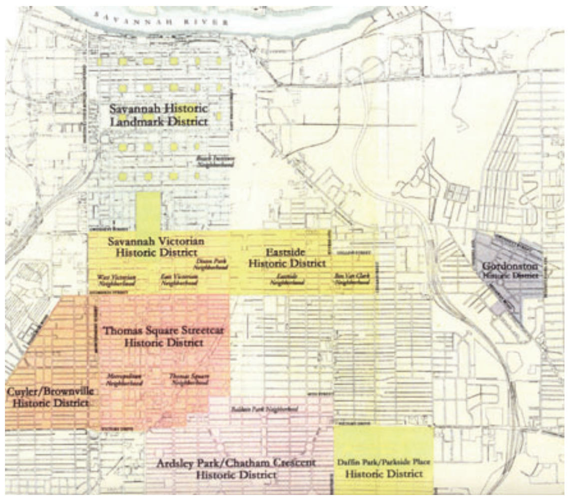


Figure 1: Downtown Savannah, GA Historic Districts

Another issue revealed as a result of the interaction between the population dynamics and the character of the housing is the issue of gentrification. Processes of gentrification generally occur in areas where there is architecturally distinctive older housing that is inexpensive but has high market value once rehabilitated, ease of access to amenities (e.g. retail, restaurant, etc.), and relatively strong employment opportunities for new and better educated residents (reference). Unfortunately, this tends to take place in low income African-American neighborhoods and they are displaced from these communities. The incoming residents who are driving the gentrification tend to have a higher level of median income, smaller household size, and are young professionals who have higher levels of education and income. Thus, gentrified communities would see demographic changes along these lines and also show large increases in housing prices (both rental and home value). Thus, the research will proceed by making assessments on historic preservation, affordable housing development, and demographic dynamics in communities with significant historic preservation processes at work.

Chapter II   Review of Literature

Historic Preservation and Urban Housing: Economics benefits, Social costs

Historically, private reinvestment in historic, often-dilapidated housing has resulted in the permanent displacement of low-income residents and their replacement with higher-income residents (or gentry) who can afford the newly-increased housing and living costs (Cohen, 1998). Since the late 1960's and 1970's, the historic preservation and rehabilitation of inner city buildings have also been shown to spur this demographic change called gentrification within such neighborhoods. While, displacement is considered a natural part of any revitalization process (Smith, 1998), it has become specifically, almost exclusively, associated with America's historic preservation movement.

In response, preservation advocates now promote historic preservation as an effective tool for the production of affordable housing (Fannie Mae Foundation, 2001). Private preservation activities were responsible for about 10 percent of the nation's $211 billion total construction revenue in 1994 (Listokin, Listokin, and Lahr, 1998). Listokin, et al argue that this "considerable" contribution validates historic preservation as an important housing development tool. With the support of federal rehabilitation incentives and other pro-preservation policies, affordable, low income housing production is also possible (Listokin, et al. 1998).

Permanent displacement results from both private and public attempts to revive an urban area. During the 1960's and 70's, the federal urban renewal program entailed the mass clearance of historic inner city buildings and the dispersal of their low-income occupants in order to allow higher-priced residential and commercial developments that were promised to attract middle-class residents and businesses. This public policy program left displaced low-income households to seek housing in areas already faced with concentrated poverty.

Today, the challenge to both historic preservation and public redevelopment initiatives is to include affordable, low-income housing in such reinvestment planning and activities. The argument that the inclusion of low-income housing requires subsidies is supported by a 50-plus-year history of federal housing policy. Below market rate financing or block grants, of the 60’s and 70’s, both funded by U.S. Department of Housing and Development, relied on an infusion of private capital, which demands profits, to produce low-income housing. In its current effort to provide decent housing for every American, the federal government has decentralized its funding through states and localities and created market-oriented tax incentives to engage the private sector- developers and preservationists, in achieving America’s elusive affordable housing goals.

National Agency presents Historic Preservation as an Affordable Housing Tool

In a 1995 policy statement, federal government’s historic preservation agency officially recognized the growing intersection between historic preservation and affordable housing. Here, the federal government announced historic preservation as a tool for creating housing for urban, low income families and pointed to the federal tax incentives available to encourage both missions with the private development market (Listokin and Listokin, 2000).

Historic preservation and low-income, affordable housing intersected in the mid 1960’s during America’s urban renewal era. Von Hoffman (2000) writes that the continued loss of higher-income population and jobs coupled with the enduring spread of blight and inner-city poverty led local officials to abandon the drastic clearance of urban renewal. Instead, cities placed an emphasis on preserving buildings and including low *and* moderate income housing within federally funded urban renewal programs. The U.S. Congress responded in 1964, 1965 and 1968 with more funding for rehabilitation projects and specific requirements for the provision of affordable housing in target areas (Von Hoffman, 2000, p321).

Von Hoffman also notes the passage of the 1966 National Historic Preservation Act as marking the new, pro-preservation approach to reviving urban areas. This legislation authorized the use of urban renewal funds for acquiring and rehabilitating historic properties as opposed to demolishing them (Von Hoffman, 2000). With the end of urban renewal in 1973, von Hoffman finds that historic preservation was validated as a tool for urban revitalization and affordable housing production when it helped to stem the spread of inner city blight and poverty where land clearance had failed. The Housing and Community Development Act of 1974 replaced the mass clearance method with rehabilitation and conservation of the nation's housing stock and the preservation of historic buildings and sites are listed explicitly (2000, p.322). Von Hoffman suggests that the convergence of the housing and preservation policies reflects governmental efforts to address the housing needs of an increasingly impoverished urban clientele while emulating successful methods used by private developers.

The evolution of housing and preservation policy and their respective programs seem to run concurrently throughout recent history (see Table 1). For example, the U.S. Housing Act of 1949 committed the federal government to providing decent housing for every American family and led to the creation and funding of dozens of programs to meet that goal. That same year, Congress chartered the nonprofit National Trust for Historic Preservation to facilitate federal participation in preservation of historically significant sites and buildings. Both policies came soon after World War II when the U.S. sought to rebuild its national economy and sense of pride.

Table 1: Comparison between Federal Legislation on Housing versus Historic preservation

Year	Housing Legislation	Historic Preservation Legislation (H.P.)
1949	U.S.Housing Act - Established urban renewal program focusing on demolition and public housing construction.	National Trust for Historic Preservation - Chartered the National Trust “to facilitate public participation in preservation”.
1966	Demonstration Cities/Metropolitan Development Act - Authorized urban renewal funds for historic preservation and open space	National Historic Preservation Act - Establishes National Register of Historic Places; Review of federal project impacts on historic sites; Advisory Council on H.P.
1974	Housing/Community Development Act - Enacted the Community Dev. Block Grant program (CDBG) consolidating narrow, categorical grants.	Housing/Community Development Act - Mandated rehabilitation, not clearance; conservation of historic housing stock.
1986	Tax Reform Act (TRA) - Established Low-income Housing Tax Credit (LIHTC).	Tax Reform Act - Revised Historic Rehabilitation Tax Credit (HRTC), established in 1981.

Since the 1960’s, historic preservation has achieved a higher profile as a viable strategy for economic revitalization of properties, neighborhoods and cities through its use in the revitalization of cities such as Charleston, South Carolina, Galveston, Texas and Savannah, Georgia. Here, historic preservation is defined as rehabilitation or restoration of buildings, districts and sites designated as significant on a national, state or local government historic register. What started as an elitist movement to save isolated buildings of national significance is now promoted as an, “economic pump primer” that generates tax revenue, jobs and residents in once-vacated areas (Listokin, et al

1998, p.457). It is the infusion of private capital that won the attention of the real estate industries, municipal authorities and ultimately, of the federal policy makers and earned historic preservation inclusion into the 1974 Housing and Community Development Act and its list of funding activities.

It is within this broader context of urban economic development that David Listokin, Barbara Listokin and Michael Lahr (1998) examine the effectiveness of historic preservation in boosting housing development. Listokin, et al (1998) point to a survey of economic revitalization tools in more than 300 cities, historic preservation is ranked the seventh (of 45) most often used strategies. Preservation is lauded as a catalyst for reinvestment that makes conditions more conducive for further investment, even in nearby non-historic areas.

Investment Tax Credits join "free market" and the "public good"

The two leading affordable housing incentives designed to reuse historic properties to provide low-income housing are the Historic Rehabilitation Tax Credit (HRTC) and the Low Income Housing Tax Credit (LIHTC). Both programs stem from the 1986 Tax Reform Act (TRA) and are overseen by the Internal Tax Revenue. These tax credit incentives encourage the production of rental housing in older, urban cities by reducing the tax liability associated with development investment.

Economist Donovan Rypkema (1994) describes preservation's "multiplier effect" within the free market:

> "*As more historic properties are rehabilitated, more lenders make loans; as more lenders compete for these loans, their rates and terms become attractive; As financing becomes more readily available, appraisers adjust property values upward.*"

The HRTC makes historic rehabilitation an attractive private investment by awarding the investor a credit to be applied against his/her earned income. Here, historic preservation can compete with alternative investments and attract private capital to target communities. The federal HRTC also benefits the investors by reducing the cost of rehabilitation by 20 percent (Rypkema, 1990).

While Listokin, et al did admit that most housing produced through historic preservation activities are later offered at market rate, they assert the historic preservation tax credit (HRTC) as being the most significant single program involving historic preservation and affordable housing. Based on 1994 U.S. Census building permits, rehabilitation accounted for 31 % of total construction in the Northeast Region. The Midwest and West regions mirrored the national percentage of rehabilitation at about 20 percent. The South region showed rehabilitation at 17 % of total construction. Listokin, et al (1998) also point to comprehensive data compiled on the HRTC for additional estimates on the impact of historic preservation on rental housing because of the incentive applies only to non-owner occupant, income-producing situations.

To increase HRTC's contribution to low-income housing, Listokin, et al suggest investors and developers also utilize another tax incentive, the Low Income Housing Tax Credit (LIHTC) to increase the equity capital of a housing development. The additional tax credits attract more investors who buy in and provide the funds to finance the project. Listokin, et al (1998) explains that the two credits combined can yield 40% more equity (or investment value). The LIHTC was established by the 1986 Tax Reform Act. That same act reduced several real estate tax benefits, including the HRTC, which drastically decreased the investor pool and cut the number of rehabilitation projects by 60 % (National Trust, 1990).

Housing advocates are credited with pushing the U.S. Congress to include a provision to protect low-income housing (McClure, 2000). The intent is to provide incentives to ensure an adequate supply of low-income housing by granting tax credits to private developers and owner/investors. Under the LIHTC program, the federal government gives each states annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households (HUD, 2005). Such owners must pledge at least 20 percent of housing units for occupancy by low or moderate income households for as long as 30 years. The credit is then applied only against the cost of building or rehabilitation, not to include land cost (McClure, 2000).

The incentive is provided through the federal tax code. Each state receives a $1.25 per capita credit allocation annually. For example, in 2000, Georgia received $10,233,066.25 (GA population 8,186,453 X $1.25). The LIHTC program is administered through state government agencies, generally the state housing finance agency (McClure, 2000). Proposed low to moderate rental developments are selected by the state through a competitive process. The federal IRS code mandates that each state give preference to those developments serving the lowest income tenants for the longest time period within identified census tracts. It also requires each state to adopt an annual plan to guide the allocation of these federal credits.

Historic Preservation, ITC's Work inside the Market

Peter Werwath (1998) finds that the economic boost spurred by historic preservation is predicated on the removal of low income households. In fact, if the demographics do not change in favor of higher incomes, there will be no way to finance substantial rehabilitation and the effective demand for such properties will not materialize (Werwath, 1998). Financing, termed here, includes both private capital and public incentives (e.g. HUD's homeownership programs, IRS's HRTC and LIHTC). While Listokin, et al represents historic preservation as a natural tool for reusing historic properties for affordable housing, Werwath poses the question, "Affordable for whom?" Listokin, et al neglect to define affordability or even offer the federal definition of "affordable housing" is such that requires 30% or less of the occupants' income. And as for preservation being "natural" in low-income, historic areas, Werwath (1998) asserts that historic preservation reverses the natural filtering down of rental housing in cost as it ages. Instead, existing rental housing moves from a lower-rent category to a higher one.

This reversal reduces the supply of affordable, low-income housing and lead to these tenants paying proportionally more for their rental units, regardless of its quality (Appelbaum and Gilderbloom, 1984). Appelbaum and Gilderbloom explain that rising rents on historically rehabilitated units may also have a price-leading or "ripple" effect whereby existing landlords raise rent to match those being sought in new or rehabilitated housing. While such a profitable cash-flow picture may increase investment in housing and thereby, the number of rental units, this increase in supply does not lead to decrease in rent-price as predicted under conventional economic theory (Appelbaum and Gilderbloom). Landlords and private investors are relatively free to move in and out of the rental business, avoiding any competition that could lead to rent-price reduction. Low income renters, on the other hand, are limited in their ability to forego housing. With a necessity such as housing, a reduction in living standards (e.g. overcrowding, substandard facilities, and negligent maintenance) becomes the only option, despite local health and safety laws to the contrary (Appelbaum and Gilderbloom).

When historic preservation is presented as a "positive force" in affordable housing production, Neil Smith (1998) also asks "…for whom?" He argues that historic preservation is an economic process that fosters reinvestments in dilapidated structures and neighborhoods while directly encouraging disinvestment in others. It is within the larger cycle of disinvestment and reinvestment that displacement of the poor is inevitable (Smith, 1998). Smith (1998) goes on to argue that the benefits of historic preservation in terms of economic and community development are weighted toward one part of the population while the costs fall to quite a different group: the poor.

Preservation Partnerships Buffer the Poor from Market Effects

James R. Cohen (1998) agrees that historic preservation is frequently associated with the loss of affordable units and the displacement of low income residents. In addition, preservation organizations traditionally have avoided initiating rehabilitation activities in largely minority areas, which only serves to exacerbate the disinvestment and concentration of poverty (Cohen, 1998). It is for this reason that federal preservation agencies and national organizations launched the 1995 initiative to use preservation tools to promote community development in low-income and minority urban neighborhoods. Through a Community Partners Program (CPP), the National Trust for Historic Preservation and its corporate partners provide below-market rate loans to developers, and flexible preservation guidelines and technical assistance to historic districts facing economic constraints. (Cohen 1998) CPP also undertakes public policy initiatives to improve historic preservation's usefulness as a community development tool (Fannie Mae Foundation, 2001). The CPP initiatives make sense since the large stock of historically and architecturally significant building are located in impoverished, inner-city areas (Cohen, 1998). The CPP also assists local governments, community development corporations and grassroots neighborhood groups through its network of corporate partners such as Bank of America and Heritage Property Services with syndication or sale of state and federal tax credits for smaller rehabilitation projects, cost-sensitive project designs, and organization capacity-building.

The HRTC was introduced in 1976 as a "dollar for dollar deduction" against wage and investment income taxes, and then converted to a credit in 1981. Under the 1986 Tax Reform Act, this investment tax credit was capped at 20 percent and allowed against active (earned) income only, disallowing passive income from all rental activities and business activities in which the taxpayer does not materially participate. To earn the credit, developers and private rehabbers must invest at least 50% of the property's value back into the rehabilitation. Listokin, et al (1998) explains that the sale or syndication of this tax credit to investors seeking tax shelters is common. Syndication to real estate investment partnerships generates the actual funds needed to do the rehabilitation as investors buy part ownership in the project. Despite the 1986 revision of HRTC, its significance is also based on the multiplier effect that preservation-related spending and activity has on broader economic environment.

Specifically, Listokin, et al (1998) report that the HRTC has resulted in 239,862 units of housing nationwide from 1976 to 1997, 64% (or 153,886) of which were existing units that were rehabilitated. Here, affordable, low/moderate-income housing accounts for 20% of that 239,862 total, or 40,050. Applying the regional breakdown offered earlier, it would follow that the Northeast would offer more affordable HRTC units than the national percentage, with the Midwest and West regions at the national average, and the South less than 20% of its HRTC for affordable, low-to-moderate-income housing. Listokin goes on to argue that one would expect rehabilitation to be more pronounced in regions, such as the metropolitan areas in the Northeast, with an abundance of historic building stock However, in the South where poverty persists, historic rehabilitation contributes less to the total housing market and specifically to the affordable housing market.

Listokin, et al also warn that when combining these two incentives, the HRTC amount must be deducted from the total project value before the Low income tax credit can be determined by the reviewing state agency. Listokin, et al continue that while this required deduction may reduce the LIHTC, the HRTC makes up for it by covering any non-housing portion of said project. The required reduction in the project value basis caused when the two tax credits are combined can be a deterrent to private investment in affordable housing projects. Also, the need to encourage non-residential uses in order to fully utilize the HRTC may sacrifice housing units for office or retail business in order to make the tax credits work (Cohen, 1998).

Historic Preservation creates Project Costs that Incentives Policy Neglects to Cover

Cohen (1998) also reports that the long-term maintenance associated with historic structures and low-income housing also causes developers to decline such joint projects. Faced with a great need for low income housing, states favor large-scale projects which continue to concentrate poor households and those promoting new construction over rehabilitation which contributes to suburban sprawl (Cohen 1998, p. 689). Finally, Cohen (1998) notes that combining HRTC and LIHTC creates a complex financial package that very few developers can manage and that often requires additional funding to complete the project and finance the debt.

Table 2: Some Barriers* to Using Historic Preservation to produce Affordable Housing

Less predictability
Small scale projects (< 24 units)
Optional codes for existing buildings (GA)
Scattered site inefficiencies
Conservative appraisals/ lending
Multi-layered preservation review
Incentives inflate hard and soft project costs
Anti-"Double-dipping" rule

* *Barriers* defined as "obstacles either unique to rehabilitation or generally more problematic in rehab than with new construction." U.S. Department of Housing and Urban Development May 2001.

Kirk McClure (2000) finds that because these incentives provide tax benefits rather than direct capital subsidies, translating them into ready cash for construction or rehabilitation – or syndication – is a complex and costly one. The syndication or sale of tax credit is not an even "dollar for dollar" tradeoff. The investors' cash contributions are discounted based on the risk associated with affordable housing development and timing in the actual project the contribution was made (McClure 2000). This means that syndication typically raises contributions equal to 47 to 55 % of the tax credit (Cummings and DiPasquale 1999). Also, the syndication process itself has a cost, ranging up to 34 % of the overall syndication proceeds. This fee is considered a soft cost not covered under the LIHTC program guidelines.

Listokin, et al does recognize that historic rehabilitation and the resultant property appreciation causes existing low-income households to leave. But they also balance the discussion by pointing to the community revitalization in Savannah, GA and Pittsburgh where severe displacement did not occur. With each case study, the writers described numerous outside organizations, such as the Ford Foundation, that provided grants and several federal subsidies that "…no longer exist" as part of the financial packages created to keep low-income renters in the neighborhood (1998. p.467) The Savannah Landmark Rehabilitation project layered funding from public and private sources to preserve the built integrity of the city's Victorian historic district while allowing long-time, low-income rents to stay in their historic housing. This affordable housing/historic preservation model will be discussed more fully later in this study.

When addressing the "downside" of historic preservation, Listokin, et al identified the increased cost associated with the federal preservation regulations that govern HRTC projects. The regulations based on the Secretary of Interior Standards for Rehabilitation that require minimal changes to defining characteristics of the buildings exterior and interior. Listokin, et al say retaining and reusing existing features and materials prove to inflate the overall project costs and conflict with modern building safety codes. And while the article concedes that every increase, especially in an affordable housing project, means some family will be priced out of the unit, the writers reminds us that such projects would have a catalytic effect, spurring rehabilitation and other economic activities within the surrounding area.

Werwath (1998) describes the HRTC as "the carrot" and rehabilitation standards as "the stick" in the federal government's effort to preserve historic inner city buildings but not necessarily the low-income units within it. Because the HRTC program regulations require that an investor at least double the value of the historic property, it severely reduces the chances that the units produced will offer low to moderate rents. The U.S. Secretary of Interior Standards for Rehabilitation provides the basis for HRTC regulations. These standards emphasize the reuse and retention of historically significant characteristics and materials which is viewed by developers as an impediment to affordable housing production (Werwath, 1993). Werwath recommends modifying the rules to award tax credits to moderate rehabilitations that still increase the value without inflating costs.

Flexible Preservation Standards and more Tax Incentives Needed for Affordable Housing

When suggesting ways to strengthen historic preservation as a tool for low-income housing production, Listokin, et al recommend flexible preservation standards when economic or design constraints prevents the application of the Secretary's rehabilitation standards. Cost-sensitive design standards have been devised by the Community Partners Program of the National Trust for Historic Preservation in cooperation with state and local preservation groups, and respective area residents and later, tested in six cities including New Haven, CT and San Antonio, TX.   Flexibility in what properties qualify for the HRTC is recommended to bolster affordable housing production. Here, Listokin, et al (1998) , a tiered approach would reflect the fact that historic resources vary in significance and those on the lowest threshold could be rehabilitated under less stringent guidelines. This tiering could also be connected to the HRTC, reestablishing varying tax credit rates based on historic significance.

Finally, Listokin, et al (1998) promotes increased tax credits for low-income housing efforts. Currently, the same credit is granted to both market-rate and low-income projects. They suggest other encouragements for HRTC-LIHTC partnering such as preferred consideration when competing for state-approved low-income tax credits and the removing the provision that LIHTC's project total must be reduced by the amount of HRTC before tax credits are tallied. State and local building codes that favor new construction impede the reuse of historic properties for low-income housing. The intention was to make old buildings unfixable because they were assumed to be inherently unsafe (Syal, Shay, and Goldner, 2001). For example, in New Jersey, if rehabilitation work exceeded 5% of the total floor area, the entire building would have to be brought up into full compliance for lighting, ventilation, egress and fire/safety provisions. Syal, et al explain that most building codes nationwide compared the estimated cost of rehabilitation to the total building value to determine level of code compliance. If the project cost equaled 50 percent or more of the building's value, the entire building would have to be brought up to current building codes. With most rehabilitation projects, project estimators were forced to inflate their estimates to allow for uncertainty which then raised the level of code compliance and discouraged the rehabilitation (Syal, et. al, 2001) Rather than forego the economic benefits of historic preservation, Listokin, et al urge codes changes that permit historic reuse.

Cohen (1998) offers the state of Wisconsin's revised state tax credit policy that favors combining historic preservation with low-income housing production. Within its project review process, preference is given to projects that contain fewer than 24 units that rehabilitate historic buildings, and/or that quality for both federal and state historic rehabilitation tax credits. The premise is that historic preservation guidelines will take low-income projects above the minimal construct standards allowed under the LIHTC program and mixing people with different incomes in a project area will lessen social problems associated with spatial separation (Cohen, p.689)

Like Listokin, et al, Werwath also recommends a tiered system for HRTC projects, revised rehabilitation standards and a "fundamental" change to the tax credit rules. But he reminds us that the rules only affect those investors seeking the incentive. Historic preservation and rehabilitation activities occur when the market conditions point to profits there. Werwath says city planners and local leaders can keep the market forces from “overheating” neighborhood real estate by maximizing efforts to preserve affordable housing. Such public intervention can include low-cost financing to low-income housing investors, tax abatement, banking land and properties for low-income housing development, or rehabilitating anchor building with public housing funds.

The influence of historic preservation on the production of affordable housing reaches beyond projects attempting to reuse historic buildings to the construction of new units within historic inner city neighborhoods. As historic preservation fosters rehabilitation, it also makes conditions conducive to new construction, and specifically architecturally compatible infill construction in historic areas. The Urban Land Institute (2002) defines infill housing development as “vacant or underused property located within a developed area.” This broad definition includes not only vacant lots, but dilapidated historic structures, and properties within the urban inner city. Infill developers can also benefit from the higher property values, increased market demand for in-town housing and improved availability of financing. Such infill construction also supports historic preservation when it is designed using material and at height, mass and scale that are compatible with the surrounding historic housing stock.

Along with reusable building stock, urban historic areas also offer proximity to jobs, access to transit, and presence of other amenities that attract both rehabilitation and infill construction activity (Listokin, et al, 1998). However, J. Terrance Farris is not very optimistic, finding that the existing barriers to infill development will cause very little of this anticipated new development to occur in presently built-up urban areas. Those barriers include land assembly difficulties, building costs, infrastructure conditions and regulatory costs. When compared to suburban and rural location, the central cities tend to have more regulation with historic designation adding yet another set of rules (Farris2001, p.19). He warns that design standards for urban projects are extensive in terms of facades, landscaping, lighting, etc beyond what the market can bear. This not only makes the inner city less attractive but makes affordable housing impractical.

William H. Hudnut, III writes that the projected U.S. population growth is the very reason why there *will* be a market for urban infill development. He suggests urban infill will help meet the demand as well as give people an alternative to suburban living. Both authors agree that urban infill developers are selling a lifestyle that requires access to transit, walkable street patterns, proximity to work and recreation, and available culture and nightlife.

Local preservation commissions are empowered through local and state law to identify and designate historic resources, prohibit their demolition, review their rehabilitation and regulate the construction of new buildings with designated historic districts. According to the U.S. Preservation Commission, more than 2000 such local commissions exist nationwide. Federal and state regulations typically focus on governmental actions that impact historic resources except when tax credits are sought. Local preservation review regulates private action regardless of any incentives. Listokin, et al describes these regulations as a “guard” against inappropriate alterations or demolitions in historic districts. They explain that these regulations encourage property owners to invest in their properties by ensuring architecturally-sensitive materials and techniques on area projects and promise to protect their investment value over time. (Listokin, 1998, p. 439)

Farris refers to this phenomenon as the “prisoner’s dilemma” problem. Here, two adjacent property owners are each limited in their investment decision making by what the other will do- a real concern for infill developers. If one owner rehabilitates or develops infill and the other does not, the first investment will be negatively affected and the highest potential return is lost. Now expand that scenario from two properties to those in a block or an entire neighborhood. Farris lists urban renewal, building code enforcement and community development programs as previous attempts to eliminate these barriers. It seems that in a nation founded on self-interest and property rights, mutual decision making needed must be induced by the government. Hudnut balances the discussion with a list of challenges involved in traditional suburban development: Exclusionary zoning against certain demographic groups; environmental protection and endangered species laws; “drawbridge mentality” of present residents to limit more housing; new infrastructure costs; complex review/permitting process that may require public hearings if the land must be rezoned.

Table 3: Cost/Benefit Comparison:
Compatible Urban Infill Housing VS Suburban Greenfield construction

	Compatible Urban Infill Housing	Suburban Greenfield construction
Benefits:	Existing public infrastructure/services	Available developable land (rural)
	Proximity to CBD, city amenities	Pro-new construction building codes
	Access to transit	Suburban, large lot zoning
	Repair streetscape, neighborhood	Easy of planning/subdividing
Cost:	Lack of developable land	Extension of water/sewer/ roads
	Arbitrary existing building codes	Longer commute time to CBD
	Low-density, large lot zoning req’s	Environmental protection laws
	Visual compatibility review	Rezoning for residential use
	“Prisoner’s dilemma”/repair holdouts	“Drawbridge mentality” limits units
	Low appraisal limit financing	

The costs of blighted property assembly are frequently higher than the value of the site for the (affordable housing) re-use intended. This reinforces what was learned from developing the urban renewal program-that is, land write-down or gap financing is frequently necessary, whether for infill development or rehabilitation. Such subsidies are needed to assemble deteriorated and abandoned buildings for complementary rehabilitation or historic preservation where the market frequently will not cover total costs. (Farris, 2001)

The Savannah Landmark Rehabilitation project combined historic rehabilitation with compatible infill construction to stave off the displacement inherent to the community revitalization process and to ensure the availability of affordable housing in the city's Victorian District. While preservation can be an asset that attracts urban infill development, Farris says infill developers must be willing to learn the nuances of preservation as well as the complexities of the preservation review and approval process, which is another transaction cost. While large cities have attracted national developers who specialize in the niche market of infill development, midsized communities and cities with weak markets may not attract those developers. Farris (2001) points to local externalities such as urban brownfields, outdated infrastructure, and a need for eminent domain to clear land titles. Non-local externalities such as national monetary and tax policies strongly influence an urban market in terms of the profitability of housing, construction and financing costs, and the property resale rate for tax sheltering purposes (Appelbaum and Gilderbloom, 1984).

Urban compatible infill calls for local home builders to specialize in sporadic and scattered site small land assemblies. However, Farris (2001) argues that larger scale land assemblage and site control is needed to eliminate the risk associated with the "prisoner dilemma" and creates the environment to support investment. Sometimes nonprofit housing corporations perform the development or finance packaging function with a private builder or as developer/builders themselves in order to supply low/moderate income housing. But Farris finds that both the for-profit and non-profits mentioned are undercapitalized and have limited capacity to perform efficiently to generate the economies of scale for feasible operation. Farris also points out other significant challenges to infill development- low income and market rate- in the inner city such as accessing competitive lending terms, assembling lots, and dealing with barriers. Hudnut (2001) writes that urban infill projects in Atlanta, Chicago, Denver, and Jacksonville, Florida demonstrate that the aforementioned barriers can be overcome. Hudnut (2001) notes the use of public-private partnerships between urban landholders, city government and banks to create an attractive investment environment. In Jacksonville, the city offered development grants to buyers and made $3million in infrastructure improvements. Specifically, the project created clusters of units in and around the city's downtown. These urban infill successes utilized their proximity to the city's civic, business and cultural centers and open public processes to reduce NIMBYism and educate partners and participants (Hudnut, 2001).

The overarching challenge is the inner city's inability to compete with the ease of traditional suburban housing development for investment dollars. Farris (2001) reports that many suburbs today are built to accommodate 1,000 to 3,000 people per square mile, based on markets and land costs. With this projection, planners suggest anti-sprawl measures and housing advocates pursue higher-density, quality development rather than the typical low density suburban sprawl of the past 50 years. The federal initiative to deconcentrate the poor by relocating them to rental units in suburban communities supports the attractiveness of suburban location. But, it neglects the realities of transportation costs and other factors that will diminish the affordability and feasibility of such an alternative.

Hudnut (2001) warns that Farris creates a false dichotomy between the value of high density in the city's periphery and the value of infill development in the inner city. Here, Hudnut (2001) insists the two objectives are not mutually exclusive. Planners, politicians and builders should see the two as part of a multi-pronged approach to using land and buildings wisely to meet the market demand for different kinds of housing.

Timing is also an important factor in an overall strategy to develop declining, inner city neighborhoods. Public and political pressure may push for results from rehabilitation grants or support for new infill, low-income housing. But if a neighborhood continues to decline despite an occasional scattered-site marginal project, those scattered projects become financial and political obstacles to future investment or support. Farris (2001) writes that some areas may literally need to be avoided for 25 years or more to allow complete abandonment and eventual redevelopment. He recommends long-term strategies on the part of governmental and private advocacy partners to meet the need for significant urban development to promote revitalization, provide housing, and control suburban sprawl.

Preservationists often laud inner city redevelopment for its reuse of existing infrastructure without acknowledging that like historic buildings, infrastructure, too, requires reinvestment. Historic preservation is a mechanism that can spur the cycle of reinvestment to generate the property revenue to support infrastructure improvements. Within larger cycles of reinvestment and disinvestment, historic preservation makes impoverished areas economically attractive for new infusions of capital (Smith, 1998). However, this renewed attractiveness hinges on higher profit potential which translate into higher prices and rents, and the higher income households to pay them.

Farris (2001) recommends land-banking for housing/economic development and as a long-term planning strategy for cities, especially those unable to extend their city limits. Land-banking is a real estate asset management strategy used in public and private sector. Here, Farris (2001) is referring to a local quasi-government agency acting as a depository or reserve for real estate for the purpose of economic development. In 1990, the Georgia Assembly passed enabling legislation authorizing interlocal cooperation and the creation of legal independent land bank authorities (Anderson, 2000). As a quasi-governmental entity, a land bank authority is given special powers to acquire and assemble multiple abandoned or encumbered properties and then legally transfer the land to responsible non-profit or for profit private developers for redevelopment (Schilling, Kromer, and Millman, 2005). Schilling, et al (2005) report that the municipal land bank takes on the initial risk of preparing the land in areas that have uncertain real estate markets. These authorities help developers to establish a foothold in transitional neighborhoods, thereby attracting more private investment until the housing market and ultimately, the neighborhood, are rebuilt. The land can be acquired in various ways including outright purchase, donation, and eminent domain (also know as condemnation). Because blight elimination and affordable housing qualify as a public purpose, Farris (2001) suggests cities institutionalize the land bank and condemnation processes and eliminate the holdouts or owners seeking exorbitant prices that deter development. Land banking and use of eminent domain helps to clear the title on encumbered private lands but it also interrupts the price speculation that naturally occurs in the free market. Farris (2001) also calls for cities to upgrade inner city infrastructure in preparation for increase usage that accompanies housing productions and urban redevelopment.

Lastly, Farris (2001) encourages cities to streamline their permitting and historic review process to reduce the transaction costs for infill developers and other willing to invest in the inner city. This improvement coupled with aggressive outreach and education of private developers on the various city, state and federal regulations governing preservation and infill in the respective city. In fact, Farris (2001) points to the 1995 Advisory Council on Historic Preservation policy statement that encourages comprehensive training on preservation and development process for housing providers who implement affordable housing developments.

In identifying barriers to re-development in the American inner city, Farris (2001) refers to Harvard business professor Michael Porter's research on the competitive advantage of the inner city. Porter (1995) disparages the use of "artificial inducements, charity, or government mandates" to create viable inner city economies. He says aid to inner cities have taken the form of housing subsidies, income assistance and food stamps and have undermined the creation of viable businesses and partnerships that could, if allowed, provide the jobs and housing needed in the inner city. On the other hand, Porter (1995) acknowledged the need for public funds to overcome the disadvantages of doing business in the inner city, but asserts that they must be spent in ways that do not distort business incentives. He recommends that government spending should be directed toward creating a favorable business environment. Porter (1995) continues that long-term rent subsidies, a favored federal government approach, often attract developers and management companies seeking short-term investment shelters. For them, the inner-city location offers no lasting economic advantage. These type projects are unsustainable and eventually end in conversion to market-rate. Instead, government should focus on preparing and offering building-ready sites at market prices and supporting business through tax exclusion for capital gains and dividends. It must address private investment directly instead of trying to stimulate economic development through expensive investments in housing and community infrastructure.

Porter and other conservatives contend that U.S. housing policy is out of step with the economic realities of its inner cities. Rather than improving the environment for private investment and supporting sound business principles to meet low-income renter's needs, government, specifically on the local level, continue to expand its direct involvement in providing social services with subsidies and regulation that dull the private profit motive and increase the cost of inner city development. He urges local governments to "invest" wisely and in the inner city, first.

John T. Metzger (2000) offers a balancing view that the disparate pattern of development and urban decline in America is a direct result of private business practices and theories that influenced both the market trends and government policy. As far back as the 1920's and 1930's, real estate and banking industries determine what residential areas receive lending services or new investment according to who lives there and that racial (and later low-income) groups negatively affected property values and thereby, investment (Metzger 2000).

Conclusion

While the creation of affordable housing presents a new wrinkle in America's current urban revitalization and historic preservation movements, the reality of the potency and influence of the private, for-profit housing industry and its associated financial networks still exists. And since historic preservation is basically a private, economic movement, it too continues to cater to the private sector. The needs of the urban poor remain secondary.

Since 1949, it has been the public sectors goal to meet the socio-economic need for affordable, low-income housing. After suffering through mismanagement, scandals and ongoing abuses, the federal government has endeavored to decentralize its housing effort to a network of state, municipal, non-profit and private, for-profit partners. National Historic preservationists have signed up as partners in this latest endeavor to produce affordable housing. National Trust President Richard Moe asserts that their goal is two-fold: to save historic, inner city resources and districts and to house Americans. Preservationists who spurred an economic revival in the 1960's now look to join the movement to produce affordable housing in America's urban cities.

It is obvious that the myriad of needs and agendas present in this "movement" calls for a comprehensive approach. And once again, each level of government must balance them all within incentive programs that offer attractive incentives, attainable standards, and measurable expectations to the group that stands to do the yeoman's work of providing housing for American urban poor-private market developers.

The Savannah Landmark Rehabilitation Project, 1975-1983: A model for providing Affordable Housing through Historic Preservation

The literature on historic preservation and affordable housing production often points to Savannah, Georgia as one city that has successfully rehabilitated historic houses within one of its historic districts to provide housing for its inner city poor. "This required not only financial, construction and preservation acumen but also considerable outside assistance. The result was the provision of hundreds of rehabilitated housing units for the poor, representing a multi-million-dollar investment and the preservation of a desirable historic area in Savannah," wrote Listokin, Listokin and Lahr (1998). The founder of the Savannah Landmark Rehabilitation Project (SLRP) named the preservation of historic housing without the displacement of existing residents as the base principal of this housing program that combined a multiplicity of financial and technical resources to provide affordable rental housing for the low income residents of the city's historic Victorian District (Adler, Adler, Jones, Reiter, 1983).

This section is a synopsis of this innovative program. It also attempts to review each step of this project, from planning/acquisition, to actual rehabilitation, and to eventual occupancy and management, which HUD called a "precedent for other cities trying to solve the problem of providing housing for low income groups" (Adler, et al, 1983).

Savannah Landmark: A Local Response to Free Market patterns

The Savannah Landmark Rehabilitation Project (SLRP) was created in 1975 in response to the displacement of low-income and minority renters experienced in the preservation and revitalization of the city's downtown historic Landmark district. Between 1965 and 1977, the appraised values for houses within the Landmark District grew by 275 percent (Crowe, 1987). Crowe (1987) went on to note that higher rents and growing vacancies also illustrated that gentrification was underway in the Landmark district.

The Savannah Victorian historic district, located due south of the downtown Landmark district was recognized for its vast collection of architecturally significant houses built between 1870 and 1910 and for its role as Savannah's first middle-class suburb that used the new technology of the late 19th/early 20th century, such as electricity, drainage infrastructure, streetcar and wood frame/housing mass production. However, the 1950's flight of white families to the newer suburbs left the district predominately poor and black and its housing stock largely abandoned (Adler, et al, 1983). In 1970, prior to the start of the SLRP initiative, the median income in the Victorian district was $6,905 in 2000 dollars (DeVegter, 2004). SLRP founder Leopold Adler, II (1983) noted that rents averaged fifty dollars a month. He wrote, "There was a possibility that the successful, older preservation movement (within the downtown Landmark district) would soon expand into the adjacent Victorian District, but in either case an entire segment of the population would be uprooted and displaced."

A 1970's study conducted by the City of Savannah documented the Victorian district as dominated by absentee landlords who rented their historic, yet substandard houses and apartments to the city's working poor. In response to the city's findings, Adler and others committed to preserving some low-income population by maintaining a substantial supply of affordable housing within this soon-to-be revitalized historic district. The rehabilitation of historic properties was a key element of this initiative.

Adler and other SLRP organizers recognized the need for a financial mechanism that would support the creation of low-income rental housing and usher in neighborhood revitalization without the displacement promised by a free market approach.   By 1982, SLRP produced and preserved 300 housing units, about 20 percent of the housing stock, in the Savannah Victorian district and generated more than $5 million in permitted construction activity (Adler, et al, 1983). It also succeeded at significantly controlling displacement. That same year, a demographic survey showed that the district was still "primarily black, almost half the households are still headed by females, the vast majority of households have incomes below the SMSA's median, the majority of the population still rents, and more than half of the households have lived at the same address for more than five years" (Blackburn, 1982).

By complying with the Secretary's standards that mandates the retention and reuse of significant historic features and materials-both interior and exterior, SLRP applied for and received the Historic Rehabilitation Tax Credits. The nonprofit entity used the credits to leverage other cash investors to its housing effort (Adler,et al, 1983).   SLRP set out to alleviate the problem of substandard and deteriorating housing in Savannah's Victorian historic district while also retaining both the irreplaceable 19th century architecture and the "responsible poor" renters residing there.

Savannah Landmark combines Affordable Housing Production and Historic Preservation processes

According to its 1983 summative report, SLRP implemented an affordable housing production plan using the three-step process used today: development, which includes acquisition and financing; construction, which includes historic preservation and compatible infill; and occupancy, which includes property management, rent control (HUD 2001).

By examining the practices and policy tools used in each of the three steps of the SLRP production, we will establish a comparative framework by which current projects can be evaluated as to the effectiveness of historic preservation within the production of affordable housing.

Rehabilitation is sometimes viewed as “easier” than new construction because it does not “start from scratch” (HUD, 2001). But it is that very characteristic that underlies many of the challenges facing the rehabilitation industry. In its 2001 study, *Barriers to the Rehabilitation of Affordable Housing*, HUD described, rehabilitation as “nonstandard, less predictable, smaller-scaled and challenged….” However, in this same report, HUD agrees with the National Trust for Historic Preservation (NTHP) that rehabilitation is “a matter of life or death” for America’s aging housing stock and, most importantly, for the cities who stand to benefit from sustaining the useful life of these inner city resources. HUD (2001), in cooperation with NTHP and the Enterprise Foundation, recognized the lack of in-depth research into housing rehabilitation.

According to the 1997 American Housing Survey, 39 percent of U.S. central-city housing units are at least 50 years old. This fact also meets the basic qualification for historic designation of those structures. Also, of the 82.2 million year-round houses and apartments nationwide, 45 percent (37.2 million) require some level of rehabilitation (HUD, 2001). Despite rehabilitation’s variability, HUD (2001) categorizes most rehabilitation on three levels: minor, moderate and substantial. Minor refers to maintenance repairs and property enhancements of a nominal nature. Moderate rehabilitation involves more extensive improvements such as new wiring, plumbing and heating/cooling systems as well as interior improvements to fixtures and finishes. Substantial rehab entails the removal of a majority of exterior siding, windows, etc. and of all interior walls and mechanical equipment and the installation of new material, elements and systems.

HUD's focus is on moderate and substantial rehabilitation as the costs for such rehabilitations increase the housing cost burden for very low and low income households (HUD 2001). According to HUD, 27.5 percent of renters currently pay 40 percent or more of their income for housing. If needed rehabilitation was conducted, the percentage of excessively burdened renters would rise to 38.8 percent (HUD, 2001). "At risks populations tend to live in housing needing rehabilitation, yet they are least able to pay for it," HUD writes. In order to meet America's need for affordable low-income housing, HUD (2001) also identifies the need for affordable rehabilitation itself. For this reason, Savannah Landmark utilized cost-cutting measures such as using the Comprehensive Employment Training Act (CETA) program trainees on its rehabilitation crews and tenant maintenance training to reduce maintenance cost and enhance longevity of the units. In 1977, SLRP received a $100,000 federal award for its CETA training proposal to train unemployed individuals in restoration practices (Adler, et al, 1983).

The SLRP program targeted Victorian district renters with incomes "so low that home ownership was totally beyond their reach" (Adler, et al, 1983). Renters who participated in the SLRP initiative complied with HUD's established income limit at 80percent or less of area median (Adler, et al, 1983). In actuality, SLRP served and was intended for Victorian residents earning 40percent or less of median income. In 1977, the majority of the households in the SLRP target area earned less than the city's annual median income of about $15,000.

Specifically, 55 percent of the households reported earnings between $1,751 and $5,800 a year (Blackburn, 1982). Surveys in 1977 and later in 1982 showed a 40 percent of household heads at 60 or more years old, and about 55percent of residents on fixed income. Blackburn (1982) also notes that a large, transient population continues to use the large supply of inexpensive housing in the Victorian district. While he projected that the more transient poor will continue to move through the district, Blackburn (1982) recommended that the city of Savannah "be most careful about not displacing" them.

Affordable Housing Production: Step One - Development

Project development is the initial step in the affordable housing production process (HUD, 2001). According to HUD, this step includes acquisition, insurance/ financing, cost estimation, and land use compliance. The Savannah Landmark Rehabilitation project outlined a similar approach.

Property Acquisition - SLRP began its initial planning and development phases by collecting demographic data on the socio-economic conditions and building conditions in the Victorian district (Adler, et al, 1983). The organization used these elements to devise an acquisition plan that would "minimize the displacement" and created some form of ownership control. Real estate options and delayed sales contracts were used to secure the initial buildings. These techniques secured SLRP's right to buy the property at a future date. Both methods held off actual ownership by SLRP and reduced holding costs such as insurance, taxes and security for the nonprofit group until it was time to begin rehabilitation. Also, because property prices were depressed at about $1,800 per unit when SLRP began its acquisition program in the Victorian District in 1977, owners did not require immediate closings (Adler, et al,1983).

Between 1974 and 1981, SLRP acquired 325 housing units in and around its target area. The first purchase was of a three-unit row on Price Street in the Victorian District. Next, SLRP bought 64 units within both stand-alone and attached row buildings from several different private owners. Lastly, a package of 261 units was acquired from one major landlord. These properties were scattered throughout the district with some were outside the project area (Adler, et al, 1983). By 1980, the per unit price was $6250- an indication of the real estate market “upturn” stimulated, at least in part, by SLRP’s activity.

The SLRP acquisition criteria targeted vacant structures to reduce tenant relocation costs and scheduling problems; multiple-unit structures or those that lend themselves to division without costly or damaging structural changes; structurally sound units with minimal damage; per-unit prices that could be amortized over the entire project; proximity to other SLRP units to allow for rehab quality control without creating a “restored ghetto”.

Multi-layer Financing – SLRP combined a multiplicity of financial and technical resources to provide affordable rental housing for the low income residents of the city’s historic Victorian District (Adler, Adler, Jones, Reiter, 1983).

Adler notes that most local banks were reluctant to lend to SLRP, an unproven borrower working in the risky, inner city. Using the signatures and securities of SLRP board members as collateral, the organization did secure some conventional acquisition loans. Those initial loans drew other banks into a lending consortium that supported the large package purchase mentioned earlier.

The local government also advanced federal Community Development Block Grant (CDBG) monies to lower interest rates on bank loans for this $1.2 million purchase. The Ford Foundation subsequently relieved the City of 40 percent of its loan. These loans would be repaid as the projects were syndicated (Adler, et al, 1983). Syndication will be discussed in more detail later in this section.

Owner financing was also used in some cases, which saved on lending fees for SLRP and spread out capital gains for the owner. The National Trust for Historic Preservation (NTHP) made a loan from its Revolving loan Fund program to SLRP for property acquisition. Grants to SLRP and the City government covered administrative costs and public improvements, respectively. In 1975, the National Endowment of the Arts awarded a $17,000 matching grant to SLRP to create the housing program-not acquisition. SLRP administrative costs ere almost exclusively met by grants from various organizations including HUD's Innovative Projects and Technical Assistance programs, Georgia Department of Natural Resources, and the al Dir' Iyyah Institute, specifically for a solar demonstration project (Adler, et al, 1983).

Federal funding through HUD's various housing programs composed the bulk of SLRP's financing: Innovative Projects Grant (IPP), Section 321 Rehabilitation Loan, Section 8 Substantial Rehab Rental subsidies, Urban Development Action Grant (UDAG), Section 221 D-4 Mortgage Insurance, and locally administered Community Development Block Grant (CDBG) funds. The next subsections summarize the three top HUD programs used in the Savannah Landmark Rehabilitation Project:

Federal Section 312 Rehabilitation Loans

When reviewing the SLRP program, local housing officials described the federal Section 312 rehab loan program as a "mainstay in the historic preservation and urban revitalization movements". Section 312 was one of the few direct housing loans program offered by the federal government (Blackburn, 1982). The program provided loans up to $27,000 per unit at 3 percent interest annually for a term of 20 years. Also, SLRP was one of few nonprofit organizations to use the 312 loan program to rehabilitate SLRP's first 64 units in 1978 (Adler, et al, 1983; Blackburn, 1982). With special permission from HUD, SLRP was able to combine this program with another HUD program, Section 8 rent subsidy.

The former Section 312 loan program was also open to any property owner, public, private individuals, or corporations. The City of Savannah directed their 312 loans to low income homeowners in local target area. The Savannah Housing Authority, local agent for HUD, distributed its loan to downtown Landmark homeowners and incoming gentry as part of that Urban Renewal initiative (Blackburn, 1982). Blackburn (1982) also notes that a "black gentry" received a Section 312 loan to rehabilitate a multifamily structure in the Victorian district - the only non-SLRP loan made before the program ended by 1983.

Federal Section 8 Substantial Rehabilitation Rent Subsidy

The SLRP financing package combined the Section 312 rehabilitation loan and the Section 8 rent subsidies programs in mid-1978, to fund its initial phase of 64 units. That year, the City of Savannah received a new allocation of 500 units of federal rent subsidy under the Section 8 Substantial Rehabilitation program for the Victorian target area. With that, the fledging SLRP become the largest scattered site Section 8 substantial rehabilitation project in the nation under the federal Neighborhood Strategy Area (NSA) program (Adler, et al, 1983). The city reserved 250 units for use in the SLRP project (Adler et al, 1983, Blackburn, 1982), separate from the earlier rent subsidies awarded to the preliminary units. But most importantly, this next, larger phase of SLRP's program would not be able to use the section 312 rehab loan program.

Both Adler and Blackburn report that HUD discouraged this type of "double subsidy" as well as small scattered-site packages. Adler (1983) wrote, "Despite the fact that Section 8 and other HUD programs are not designed for scattered siting, it does appear that scattered sites more comprehensively fulfill the objectives of the NSA program." Blackburn (1982) also observed that landlords with fewer than ten units did not participate in the Section 8 subsidy through the city-run program, thus hampering the federal NSA program's effectiveness to "comprehensively revitalize deteriorating residential neighborhoods".

Federal Historic Rehabilitation Tax Credit (HRTC)

The next, larger phase of SLRP affordable housing program had to replace the previously-used Section 312 rehab financing with a syndication financing program where historic tax credit and depreciate deductions raise the funds to rehabilitation 189 housing units. One of the benefits of the district's National Register designation was the eligibility for the federal historic rehabilitation tax credit (HRTC). SLRP used the federal tax credit incentive afforded by the Tax Act of 1976 and the Economic Recovery Act of 1981 to attract private investors to buy interest in this project. At this time, a 25-percent tax credit was available for the rehab of historic, income-producing properties, both residential and nonresidential. These credits could be applied against wage and investment income (Listokin, Listokin and Lahr, 1998).

Sale or syndication of these credits to an investor is used to raise the cash equity for the given projects. Listokin, et al (1998) offered the following example: a $1 million rehab of a historic apartment building, prior to 1986, would qualify for a $250,000 tax credit, which investors could deduct dollar for dollar again their federal income tax liability according to their pro rata ownership of the project. Also, project investors are allowed to deduct the cost of properties depreciation over a 15 year recovery period (Adler, et al, 1983). The Savannah Neighborhood Action Projects (SNAP), Ltd. was formed for the purpose of raising capital for rehabilitation in return for their share of the tax credits. Cranston Securities Company of the Cranston Companies of Columbus, Ohio served as the syndicating agent. Cranston Companies later became the general partner responsible fore all aspects of operation of the limited partnerships. These limited partnerships also owned and maintained the 233 units, known as SNAP I, II and III, for rental to low-income families under HUD's Section 8 rent subsidy program (Adler, et al, 1983).

As a non-profit organization, SLRP could not use the tax credits directly. SLRP received syndication proceeds which reduced its indebtness created by the public and market-rate loans totaling more than $9 million (Adler, et al, 1983). Overall, both Adler (1983) and Blackburn (1982) noted that the biggest challenge to utilizing HUD funding in the SLRP effort had been HUD itself. Adler (1983) wrote that because federal housing programs are administratively designed for single site construction, HUD and other agencies must endure significant administrative costs generated with scattered site projects. Those costs are also created for the developer, non-profit Savannah Landmark in this case. One example was with annual recalculation of rents under the Section 8 program. With single-sites, rents can be reprocessed at one time upon rehab or construction completion. With scattered sites, unit completion is staggered. Here, rent recalculations will also be staggered, which creates a loss in rental income for those units awaiting recalculation.

Blackburn (1982) points to long delays between HUD approvals that allow housing rehabilitation and construction costs to rise. He also noted HUD's orientation toward large-scale developments. This orientation "discouraged small, scattered-site packages" which characterizes most rehabilitation projects implemented in historic inner city areas. "[T]he program limitations and the unwillingness, or inability to deal with numerous small developers has severely hampered the potential effectiveness of the Neighborhood Strategy Area (NSA) program," Blackburn (1982) writes. It was under HUD's NSA program that SLRP received the allocation of 250 Section 8 units which enabled the rehab nearly 200 units and the construction of 44 new, compatible units.

Other Financing Elements –The creation of limited partnership to finance and manage the rehabilitation more than 200 Victorian rental units in SLRP's target area opened this nonprofit housing program up to more private, for-profit investment. The commitment of the SNAP limited partnerships attracted the construction financing for the 100-unit SNAP I rehab project from Trust Company Mortgage of Atlanta, the two tax-exempt construction notes issued by the City's downtown development authority for SNAP II and III, and the permanent mortgage financing from Federal National Mortgage Association/ Government National Mortgage Association for all three phases (Adler, et al, 1983). The SNAP II phase involved rehabilitating

89 existing units. SNAP III involved the new, compatible construction of 44 units in the Victorian District. All three SNAP phases were approved to receive Section 8 rent subsidizes and construction finances.

Adler (1983) notes that the addition of Cranston Companies as general partner of the SNAP projects and its hiring of the ADC Construction Company of Atlanta as the general contractor in 1980-81 provided the experience, and financing assets needed to bring this next phase to fruition. This new organization was needed in order for the SNAP phases to receive the Section 221(d) 4 mortgage insurance from HUD.

Even though, SLRP had received approval for Section 8 rent subsidies for 250 rental units, its respective rehab plans for SNAP I, II and III has to face various HUD reviews. That process took 23 months- from June 1980 to May 1982. HUD's regional Mortgage Credit Section determined that SLRP did not have the necessary financial capacity to serve as general partner- a common problem for nonprofit organizations (Adler, et al, 1983). Blackburn (1982) reported that while the purchase of 261 units brought SLRP closer to realizing it vision, as an organization, "Savannah Landmark was brought to the brink of bankruptcy by the long HUD delay."

Through its own creative use of local CDBG funds and its federal Urban Development Action grants (UDAG) , the City of Savannah support SLRP by enabling low-income homeowners and landlords to repair their Victorian district properties, by providing street and other public improvements, and by aiding in the temporary and permanent relocation of Victorian residents. The City received an Urban Development Action Grant (UDAG) to match the city's outlay for sidewalk, tree plantings and wheelchair ramps at area intersections.

However, the City had to show at least $1.95 million in private investment before the $650,000 grant was released (Blackburn, 1982). This requirement could be seen as being in conflicting SLRP's mission by accelerating gentrification in the Victorian District.

Estimating Rehabilitation Costs - While SRLP's 1983 program report did not list its rehabilitation costs, specifically, it did offer a $30,000-per-unit cost, making SLRP a $9 million, 300-unit project (Adler, et al, 1983). Also, the report did urge readers to identify the condition of the structure prior to acquisition. An accurate assessment would reveal fire damage covered up by cosmetic repairs and would help reduce the price. It would also result in more realistic repair/cost estimates. SLRP specifically directs the reader to check local fire department records and to inspect the attic for signs of such damage. Thirty-three of SLRP's structures has hidden structural damage which led to unanticipated repairs and reduced the contingency funds for the project (Adler, et al, 1983)

No specific mention was made of lead and/or asbestos removal or containment. Federal government outlawed the use of lead in paint in 1978. Also, federal regulations were enacted in the early 1970s mandating that the elimination of lead-based paint hazards as far as practical in federally-owned, -assisted, and -insured housing (HUD website). Holding costs, such as property taxes, insurance, interim maintenance, real estate commissions and legal fees, were other important SLRP costs. Because these costs could run for months as project managers prepare for actual rehabilitation, SLRP set out to delay outright ownership using delayed acquisition techniques. Limit rental income from the pre-existing occupied units and grants from private groups (e.g., the Unitarian Universalist Church of Savannah) were the two basic funding sources for holding cost (Adler, et al, 1983).

Administrative costs for office expense and professional staff salaries were also met by grants. The Section 8 subsidy set aside a portion of the rent payments for project management. SLRP tapped both U.S. Department of Interior and state historic preservation funding to hire a project architectural review. Later, as part of the syndication partnerships, a local architectural firm joined the team to ensure compliance with the U.S. Secretary of Interior historic rehabilitation standards. Those project receiving tax credits must adhere to these federal preservation standards (Adler, et al, 1983)

Although SLRP concentrated on vacant properties, its later purchase of 261 units did include some occupied units and thereby, required some relocation. Also, the Uniform Relocation Assistance Act mandates that federally-funded projects relocate effected tenants. According to city reports, about 75 percent of the forty displaced households were relocated within the Victorian District, and 10 percent were moved to middle-income areas in the city (Blackburn, 1983). Using federal CDBG funds, the city created a Relocation Assistance Program and spent about $150,000 on relocation in the Victorian/SLRP area. Blackburn (1983) goes on to report that it was difficult to assist those not eligible for the Section 8 rent subsidy. Those households had to find new housing in the private market housing which had experienced an upturn since SLRP began in 1977.

None of these estimates take into account all those residents displaced because of the city's concentrated code enforcement program, which run concurrently with the SLRP effort and which does not offer relocation assistance. Over the five year SLRP project, the city inspected 464 residential structures, condemning 48 structures (113 units) and demolishing ten of these structures. No records were kept on those who moved out as a result of code violations or rent increases spurred by inspection-related repairs (Blackburn, 1983).

The cost of processing delays, such as the 23-month HUD delay mentioned earlier, manifested in the loss of rent from the occupied units owned by SLRP, higher security for these vacated units, and additional repairs to vacated units vandalized during this protracted period (Adler, et al, 1983). HUD required SLRP had to notify the tenants of the 100-units, SNAP I phase of their relocation 60 days after it applied for Section 221 (d) 4 mortgage insurance in June 1980. HUD denied the City request to waive this requirement until SLRP received a firm commitment for the assistance. Blackburn (1982) writes, " [I]t is probably impossible to measure the total real cost of the (23-month) delay to the Victorian District revitalization project in terms of money, quality of life or amount of disruption and displacement caused." The same relocation notification rule was applied to the 89-unit SNAP phase II which applied for Section 221 (d) 4 in August 1980.

Land-use Restrictions - The Savannah Landmark Rehabilitation Project (SLRP) dealt mainly with existing residential properties and did not seek to adapt commercial structures for residential use. The SNAP project, phase III did involve the construction of new, infill housing units which was governed by compatibility guidelines adopted by the Savannah city council in 1981. The residential use and density (number of units per parcel) followed the established housing pattern the Victorian District and did not require zoning variance or rezoning to accommodate the project.

Affordable Housing Production: Step Two – Construction

It is here, at the rehabilitation/construction phase of the process, that historic preservation techniques come to bear on the production of affordable housing.   SLRP's goal to preserving affordable housing within the Victorian district was matched its commitment to protect the irreplaceable 19th century architecture found there. It was this preservation ethic that informed the planning and actual rehabilitation of SLRP's 300 housing units was reinforced by (rather than compelled by) the federal historic preservation guidelines. The federal tax incentive served to reward SLRP's work and further its mission.

Rehabilitation Code/ Regulation – SLRP and local preservationists cooperated with the City of Savannah in composing a rehabilitation/renovation manual for the Victorian District. The manual was later used in conjunction with the design review process established by the City council and administered by the local planning agency. SLRP welcomed the regulation as a way to control the private rehabilitation also occurring in the Victorian district (Adler, et al, 1983). SLRP hired architects and construction management to ensure that the project did comply with all local and state building codes.   In addition, it hired a local architectural firm to oversee compliance with federal standard during the later SNAP tax credit phase to ensure receipt of the tax credit.

Most notably, SLRP was faced with bringing the structural system of many of its houses up to current construction standards. This required partial demolition to reveal the framing and the addition of studs, corner bracing, and structural members where none existed before (Adler, et al, 1983). The project had to address the local housing code violations as well as implement the needed interior renovation of each unit. SLRP staff worked closely with the city inspections and housing departments (Blackburn, 1982).

Trades/Labor force- As for rehab/construction labor costs, SLRP utilized the Comprehensive Employment Training Act (CETA) workers to supplement its rehabilitation crews. Acting as project general contractor, SLRP hired project supervisor who trained and directed the small crews. This effort trained unemployed CETA participants in the rehab trades but it also necessitated increased supervision and record-keeping (Adler, et al, 1983). Adler (1983) noted that while an admirable effort to fold in a needed social program, training the CETA workers slowed production. Still training and using CETA workers, SLRP had to hire independent subcontractors and other contracted labor to expedite the rehabilitation (Adler, et al, 1983).

Skilled labor and craftsmen were difficult to find in the Savannah area. SLRP reported having to recruit skilled labor from other communities. Plasterers were extremely hard to find (Adler, et al, 1983). In 1981, a general contractor and a local subcontracting firm were hired for the later three SNAP phases. As the general contractor, the ADC Construction company of Atlanta offered a track record with HUD projects. This choice by SNAP's general partners was in response to HUD's concerns with SLRP's lack of financial capacity and the lack of capacity of its proposed construction firm.

Historic Preservation Techniques - Preserving the irreplaceable 19th century architectural heritage of Savannah Victorian historic district was one of the three goals of the Savannah Landmark Rehabilitation Project (SLRP). Although the other major goals were to provide decent, affordable housing for the poor and to rehabilitate the historic housing they were already inhabiting without wholesale displacement, it was the architectural features that most informed SLRP's approach to the rehabilitation. Later, the Secretary of Interior's Standards for Rehabilitation were implemented to guide this scattered-site rehabilitation project.

Using a grant from the National Endowment for the Arts, SLRP hired architects to develop design criteria and detail drawings for contractors and project supervisors to follow. Photographs were used in lieu of expensive measured elevation drawings to save time and money, and to help CETA workers visualize the work to be done (Adler, et al, 1983).

Existing architectural details, exterior and interior, were hand-stripped, later vat-stripped, repainted, and reinstalled where possible. Great care and supervision were practiced during the removal of trim and accent materials to be repaired off site. This was time-consuming, which also made it expensive (Adler, et al, 1983) SLRP also set up its own woodworking shop in order to economically reproduce the gingerbread details, and repair the wood windows and doors – all cost prohibitive items at the commercial outlets. The shop, itself became a time and management program and was discontinued.

Interior, historic elements such as plaster mouldings, ceiling medallions were repaired and retained where possible in public spaces such as living rooms, dining rooms and hallways. More than $20,000 was spent repairing and reproducing lost sections of plasterwork (Adler, et al, 1983). Wood trim in these rooms were also repaired and retained. New, standard trim was used in bedrooms, etc. when salvaged trim ran out (Adler, et al, 1983).

Because many of the exterior and interior elements could be reused on other historic buildings throughout Savannah's other historic area, there was a resale market for such items as banisters, cornerblocks, mantels, newell posts, brass or glass door knobs. SLRP has the added expense of removing such architectural features from their vacant units and storing them in a local warehouse secured by a night watchman (Adler, et al, 1983). With the scattered-site nature of the SLRP effort, the probability of vandalism increased, making control and monitoring more difficult than for a single-site project.

Affordable Housing Production: Step Three – Occupancy

Rent Control/ Occupancy levels - Full occupancy and highest allowable rent is sought to service the debts created by the rehabilitation project and to provide profit for the project investor. For SLRP, those debts were subsidized by HUD and those investors looked to HUD subsidies to cover cost in order to allow for profit sooner rather than later. The federal rent subsidies and other program funding awarded to the Savannah Landmark Rehabilitation Project (SLRP) required that rents charged were affordable, given the subsidy assigned and the portion of rent to be paid by the tenant. HUD required each household to earn less or equal to its income limits set according to the area's median income and poverty levels. The 1983 SLRP report did not list the rents or subsidies, specifically.

With a waiting list of nearly 1,000 prospective tenants (Adler, et. al, 1983), SLRP did not face the challenge of renting up the units as do some market-rate projects. The challenge was in generating enough the rental income to cover the ongoing maintenance and administrative cost. SLRP relied heavily on the CETA program to provide funds for the training and supervision of its maintenance staff (Adler, et. al, 1983). Former CETA rehab employees comprised the four-man crew responsible for 67 rehabilitated units and more than 200 incomplete units. The CETA was terminated in 1981. In January 1982, SLRP received a 18-month, $27,000 grants from the Unitarian Universalist Church of Savannah to pay two fulltime maintenance positions.

As a phased project, SLRP's units were in varying stages and required varying level of maintenance. In 1983, the 64-unit Innovative Project were approaching their fifth year after rehabilitation. Once the 233 SNAP units were completed in early 1984, SLRP contracted with Cranston Properties, Inc. (SNAP's General Partner) to provide routine maintenance and minor repairs.

Administrative/ Management Costs - Both private grants and donations, and portions of the various HUD funding went to pay the small SLRP staff to perform its rigorous tasks (Adler, et al, 1983). SLRP's property management program focused on tenant certification, tenant training, and annual recertification. Property management staff spent a minimum of 15 hours preparing each tenant for occupancy (Adler, et. al, 1983). The fourteen-point process included an office interview, a visit to the applicant's current home, and a verbal reading of the lease.   A prospective tenant's housekeeping skills "is the highest priority item" in the selection process, according to SLRP's 1983 summative report.   Project staff conducted semi-annual inspects of the units and common areas.

SLRP staff also completed the HUD forms for each tenant and maintained the requisite files with each tenant's proof of income, family status, and size of household.   As required by the various federal housing programs, HUD inspectors reviewed these files as well as the physical units periodically.   State-level HUD agents also reviewed the annual tenant recertification and rent recalculations for SLRP's subsidized units. Here, the SLRP administration began its preparation 90 days prior to the tenants' respective lease anniversary dates.

The six-member administrative staff provided bookkeeping and accounting services, tenant selection and training, file maintenance, and Equal Housing and Affirmative Fair Housing law compliance for the 67, SLRP units and the 233 SNAP I, II, and III units created through SLRP initiative.

Property Tax - Owners and investors may be deterred from rehabilitating their property because of the prospect that the rehabbed property will be reassessed, resulting in a significant property tax increase (International Association of Assessing Officials, 1977). The Georgia state legislature established a homestead tax freeze for owner-occupant in 2000 for this same reason. However, landlords and commercial property owners were not afforded this same tax relief.

It is tax incentives such as the Georgia Preferential Tax Assessment program that seeks to offset the direct relationship between property improvement and tax value increases. This incentive, also know as the "tax freeze" program, was established in 1989 to encourage rehabilitation of residential and commercial historic buildings by freezing the property tax assessment for eight and one-half years (Georgia Department of Natural Resources website, 2005). Landlords must increase the fair market value of their property by 100% through a rehab plan that adheres to the Secretary of Interior's standards for rehabilitation. This incentive did not exist when SLRP began its 300-unit project. However, the 1983 report did not list increasing property taxes as a significant obstacle to this affordable housing effort.

Conclusion

The Savannah Landmark Rehabilitation Project (SLRP) was “unique and innovative” because it offered a response to a multiplicity of urban challenges of its day. It supported the preservation of Savannah’s architectural heritage as an alternative to recent urban renewal practices based on demolition. SLRP protected and expanded the affordable rental housing with the Victorian District which was home of hundreds of Savannah’s inner-city, low-income residents. This housing program also presented a solution to the gentrification that accompanies the revitalization of historic urban area such as that of downtown Savannah just a few years earlier. Finally, SLRP demonstrated the ability to attract both public and private resources needed for a more inclusive redevelopment of urban cities.

Again, the federal programs used by SLRP and SNAP were: Innovative Projects Grant (IPP), Section 321 Rehabilitation Loan, Section 8 Substantial Rehab Rental subsidies, Urban Development Action Grant (UDAG), Section 221 D-4 Mortgage Insurance, and locally administered Community Development Block Grant (CDBG) funds. After more than twenty years ago, these programs, some in an amended form, are still utilized by various cities to create and preserve affordable housing in their inner cities. Of the six federal housing programs used to fund the SLRP initiative, Savannah’s housing department lists CDBG and HUD’s Section 108 program as the two “tools” currently utilized in aiding housing and property development (One Savannah: Report of the Gentrification Task Force, 2004).

A majority of locally controlled CDBG funds are now funneled to the construction single-family homes within Savannah’s inner city. As for affordable rental housing, some CDBG funds go to support a public-private lending consortium that targets area landlords.

Landlords and rental developers simply pay off the loan before the program is completed, thereby negating their obligation to rent to low-income residents. According to local housing developers this local loan program has been reduced to a startup fund until traditional financing can be secured. Its intent to provide affordable housing is unfulfilled due to this loophole.

In 2003, the SNAP I, II, III General partner, Cranston Properties of Ohio, put its 233 Victorian units up for sale on the private market. The 20-year, federal rent subsidy contract was set to expire and Cranston directors chose not to renew. Such market rate conversion is allowed under HUD's funding agreement, with proper notification and advertisement. Lee Adler, founder of SLRP, recruited Cranston to invest in the SNAP phases in 1980. At this time, he and other housing advocate enlisted the local government's help to find a corporate buyer who would renew the HUD subsidies and maintain the low-income housing in Savannah's Victorian District. Outcry from the neighborhood owner-occupants was to allow the units to convert to market-rate apartment and condominiums in an effort to easy a high crime rate associated with these concentrated Section 8 subsidized rental units. Although the need for this low-income rental housing persisted in Savannah's Victorian District, the partners and public support were not as willing this time around.

Savannah Landmark does provide a practical model for affordable housing production using historic houses. SLRP's process combined historic preservation practices in the first and second stage of the affordable housing process. In the initial, development stage, SLRP targeted a historic district; selected dilapidated properties clustered within the same block, and pooled private funds and donations from the preservation and arts community to acquire the property – all historic preservation practices.

Next, SLRP stressed the re-use and repair of existing materials in the construction stage of production. Also, for those elements such as siding or eaves brackets that had to be replaced, new elements of the same material, size and profile were installed. SLRP's to continue the residential use-rather than converting some to commercial or office uses- is also an important yet overlooked preservation technique. The use of federal preservation incentives in the latter SNAP phases also evoked the Secretary of Interior Standards for Rehabilitation. Lastly, Savannah's City council adopted local preservation guidelines to regulate demolition, rehabilitation and new construction within the Savannah Victorian district in 1982, which continues to protect those historic resources today.

For the most part, the preservation principles and standards remain; the federal programs are still somewhat available. However, it is the willingness and commitment on the part of both public and private groups to duplicate such a project that may be lacking as the need for affordable housing for Savannah's urban poor persists.

Chapter III Methodology

Procedure Overview

This study will use a joint grounded-theory and tests of statistical significance approach. The grounded-theory approach will be utilized to analyze the impact of historic preservation practices on the production of affordable, low-income housing within various historic districts of Savannah, Georgia. Exploration into the relationship between current historic preservation practices and poverty are appropriate and may yield significant recommendation on how affordable housing and preservation regulations can be produced to address poverty.

Grounded theory is an inductive approach to understanding that begins with observations and then proposes patterns, or common categories (Babbie, 1998). Babbie continues that this approach allows for “discovering the unexpected” about the concepts that might compose a particular theory or hypothesis. The questions the researcher keeps asking in grounded theory are "What’s going on?" and "What is the main problem of the participants and how are they trying to solve it?" (Glaser & Strauss, 1967) The goal of a grounded theory is to discover the participants’ main concern and how they continually try to resolve it.

In their seminal work, “The Discovery of Grounded Theory: Strategies for Qualitative Research” (1967), Barney G. Glaser and Anselm L. Strauss described grounded theory as a methodological approach to the discovery and generation of social theory directly from qualitative data (Wells, 1995). Wells (1995) continues that the objective is to explain the variability in the observed interactions, the structural conditions that support the interactions, the consequences of the interactions and the conditions that support changes in interactions over time. It is the constant comparison between actual incidents and general concepts of how interactions will go that leads to possible solutions or theory.

These aspects of grounded theory offers an advantage for this study as it focuses on the relationship between historic preservation and affordable housing and the effectiveness of preservation in producing low-income housing for the urban poor residing in both the historic structures and surrounding historic districts. Here, we observe and document the conditions under which these two processes – historic preservation and affordable housing production – interact when developers combine them in a housing development project. The action, interaction and responses of the developers as they carry out either or both processes and the problems they may encounter are an important part of this study as well. With the date gathered from these observations, the study seeks to identify common patterns, or even strengths, and weakness of combining the two processes to solve the urban problem in question. The grounded theory approach fits the focus and objectives of this study.

The ability to engage the grounded theory approach depends on the richness of the empirical data collected (Babbie, 1998). The city of Savannah was seen to offer ample data for this study method. In Savannah, the intersection between historic buildings and poor renter households is strong with half of its 12 inner city historic neighborhoods showing 40% or more of their respective housing units to be rental units (City of Savannah, 2004). Eight of these 12 inner city historic neighborhoods show 33% or more of the respective households living below the poverty line (City of Savannah, 2004). These eight neighborhoods hold about 5,000 historic structures, more than 70% being residential properties (Chatham Savannah Metropolitan Planning Commission draft, 2004).

Babbie notes an “openness” to this approach that does not confirm or disconfirm specific hypothesis. Grounded theory does not aim for the "truth" but to conceptualize "what's going on" using empirical data (Glaser & Strauss, 1967). This may be viewed as a disadvantage to this approach as the researchers and the receiving audiences alike often expect a definitive answer. However, since this study seeks to illustrate a need to reexamine and possible shift housing policy focus, this approach to understanding that categorizes empirical data as “the subjects see them” (Curran, 1998) to build a general theory is sufficient.

The quantitative component will be utilized to assess the statistical significance of socio-economic changes throughout the target communities. The data provided comes from the City of Savannah along with the U.S. Census Bureau. Census data provides the benefit of being able to produce longer term assessments. However, the variation in the variables assessed may produce problems in determining long term trends. Additionally, the access to measures of dispersion specifically associated with measures of central tendency make it challenging to test averages. While the mean is generally used because of the ability to use it algebraically, alternative methods do exist to assess significant variations in the median. To address this issue, a non-parametric method is utilized: the “Two-Group Design: Chi-Square Median Test.” This test can be used to determine if a statistically significant difference exists between the medians of two different groups. The test considers the amount of events above and below the median for each group and then produces a contingency table. Once the chi-square value is calculated, it is compared to the Chi-square critical value based upon the degrees of freedom present to test whether a null hypothesis of “no difference between the medians” is rejected of failed to reject.

In those instances where the results fail to reject the null hypothesis, the findings will be listed in a table and interpreted. An additional benefit of utilizing the median is in the ability to treat the data in a categorical manner. A consistent challenge in utilizing census data regards matching neighborhood definitions with census boundaries. Since the median tends to be the best measure of central tendency for ordinal data, after identifying median measures as being relatively consistent over an extended period of time, and with the provision of grouped income, rental and valuation data, the median is an appropriate measure to assess socio-economic change. Additionally, the utilization of ordinal data allows for the grouping of tract information to make for an effective illustration of neighborhood conditions.

Research Design

This study conducted through the review of academic and professional literature; the examination development project reports and documents; telephone and face-to-face interviews of public officials and private housing professionals; technical analyses of current housing development processes, historic tax credit and low-income housing tax credit criterion; and, tests of statistical significance on data provided by the U.S. Census Bureau and the city of Savannah . The analysis also drew on the research team's community development and historic preservation experience.

Also, the study includes case summaries of current housing projects in Savannah's historic districts and other cities striving to meet affordable housing needs. The case summaries present qualitative information on the housing development projects, the experiences of respective developers who combined historic preservation and affordable housing production, and the environment created by applicable policies.

The Scope of the Study

The scope of the study encompasses three National Register historic districts in Savannah, Georgia – Cuyler-Brownville district, Savannah Victorian historic district, and Thomas Square Streetcar district. These historic districts rest in close geographic proximity of each other and manifest the problems of moderate to high poverty, rental rates, and historic residential properties as compared to the City of Savannah overall (See Chart 1). These characteristics are reflected in other urban neighborhoods in Savannah and other Southern urban centers; therefore, the findings and resultant recommendation may be applicable in those similar areas as well.

The Cuyler-Brownville historic district was placed on the National Register District of Historic Place in 1998. It is significant for its late 19th and early 20th century architecture, for its urban street-grid pattern, and for its later history as "an exclusive neighborhood inhabited by the black Bourgeoise" (Hoskins, 2002) in Savannah. More than 900 historic structures- residential, institutional, and (few) commercial- have been documented here (Chatham-Savannah MPC draft, 2004).

In 1974, The Savannah Victorian District was listed on the National Register for its collection of Victorian style architecture built between 1870 and 1910. This area is also noted for the use of late 19th century technology such as electricity, improved drainage systems and paved streets in its development. The certified architectural survey revealed 799 historic structures here.

The Thomas Square Streetcar historic district is significant for its residential and commercial architecture and its development as a streetcar "suburb". With the advent of electricity, streetcar transportation brought residential and commercial development to this area originally used for farming and agricultural industry. With 1,113 historic buildings, this district was named to National Register district in 1997.

Chart 1: Demographic Overview: Three Target Historic Districts and the City of Savannah

City		**Population**	**Below Pov**	**Total units**	**No. Rental**	**Percent Rental**	**No. Vacant**	**Percent Vacant**	**Historic Bldgs***
Savannah, Georgia		131,603	21.80%	57,496	25538	44.42%	6070	10.56%	7603
Historic District	**Neighborhood**								
Cuyler-Brownville	Cuyler-Brwnvlle	2,889	33.10%	1,329	645	48.53%	229	17.23%	
	District Total	*2,889*	*33.10%*						909
Savannah Victorian	Dixon Park	693	39.40%	369	214	57.99%	83	22.49%	
	East Victorian	813	42.90%	538	374	69.52%	108	20.07%	
	West Victorian	806	43.00%	532	369	69.36%	107	20.11%	
	District Total	*2,312*	*41.76%*						799
Thomas Square	Metropolitan	1,860	30.80%	895	426	47.60%	194	21.68%	
	Thomas Square	1,727	42.70%	1,046	643	61.47%	174	16.63%	1113
	District Total	*3,587*	*36.75%*						

The Study Period

Data was collected over a six-month study period. The initial two months were spent researching existing academic and professional publications for journals articles, etc. on the topics of affordable housing, historic preservation, and the related policies regulations and programs. Various articles outlined the process for producing affordable housing and that of historic preservation in step-by-step fashion. An early comparison of the two process uncovered similar techniques as well as challenges. Related topics included the impact of historic designation on property values, the impact of multi-family or subsidized housing on property values, the dynamics of the private housing market and the barriers to housing production.

The topic literature identified one model project in Savannah that used historic preservation practices to provide affordable housing units in the Victorian historic district. The model project was The Savannah Landmark Rehabilitation Project, the late 1970's housing initiative that rehabilitated 266 historic houses and constructed 44 compatible infill housing, specifically for the working poor renters in Savannah's Victorian Historic District. Study researchers located and examined of project documents and reports which revealed specific housing programs and preservation techniques used. Using these model characteristics, the search became one for recent or current housing development projects that also combined these two processes.

Study Population

Several projects were located in the Cuyler-Brownville, Thomas Square and Victorian districts, all within a 5 mile radius. They included the Sister's Court Senior apartment project in Thomas Square, the Heritage Place/Row project in Cuyler-Brownville, and the West Broad Gingerbread House project in the Victorian district. The first two projects mentioned were joint rehabilitation projects completed by NorSouth Corporation, a Savannah-based, for-profit developer and Mercy Housing, Inc., a nonprofit housing organization sponsored by the Catholic

Sisters nationwide. Lastly, the Gingerbread House project is the affordable housing/rehabilitation project of for-profit development corporation, Durbin Holdings, LLC.

Agents for Durbin and Mercy agreed to participate in the study as part of the resource group. Their respective projects, the West Broad Gingerbread house project, and The Heritage Place and Heritage Row/Corner projects, will also serve as the sample and local cases for this study of historic preservation practices and their usefulness in producing affordable housing at a scale necessary to meet the need in their districts and the city, overall. An additional two to three months were committed to composing a resource group of developers, preservationists, and state, county and city officials to be interviewed. The interviewees in the Savannah area were interviewed during one or two-hour appointments. Those located out of the Savannah study area were contacted and interviewed via telephone. Also, written documents and data sets were requested (and some received) via the mail and internet from state and federal housing agencies throughout the six-month data collection period.

While the internet sources provide a base of information on housing and historic preservation, they have limits as to the amount and nature of information that could be covered. Because of time and other constraints, telephone and interview discussions with resource group members did not allow for introspective evaluation of the problems encountered between preservation and housing productions.

Here, we will compare the current projects according to a local project model of historic preservation and affordable housing production – the Savannah Landmark Rehabilitation Project (SLRP) - for the established production process, the role of historic preservation in the production, the number of units produces, and for the interaction between affordable housing and preservation processes, and the contributing funding programs and regulations. This analysis will reveal the barriers faced by developers seeking to produce affordable housing through the sensitive rehabilitation of historic structures. It will also lead to a review of federal, state and local policies that created and now regulate both historic preservation and affordable housing activities. The experiences of the developers interviewed should clarify the usefulness of housing programs and point out attempts by those actors to adjust to barrier encountered in the respective joint housing/preservation efforts.

The study area, comprised of three historic districts, is home to 8,788 people or 7 percent of the city's population. Of those residents, 3,232 or 38% live in below poverty. According to the 2003 U.S. Census Bureau Poverty Level Guidelines, a household of one earning less than $13,500 annually; a household of 2, less than $18,500; 3, less than $23,000; 4, less than $25,000 are defined as living in poverty.

Validity of the Study

According Glaser & Strauss (1967) and Babbie (1998), most grounded theory studies are considered as qualitative since statistical methods are not used, and figures not presented. The results of such studies are reporting of observations events in progress and probability statements about the relationship between concepts, or hypotheses developed from empirical data (Glaser 1998). Validity in its traditional sense is consequently not an issue in grounded theory studies. Instead, they should be judged by fit, relevance, workability, and modifiability (Glaser & Strauss 1967, Glaser 1978, Glaser 1998).

Here, “fit” has to do with how closely concepts fit with the incidents they are representing, and this is related to how thoroughly the constant comparison of incidents to concepts was done. A “relevant” study deals with the real concern of participants, and not just those of academia. A “workable” theory explains how the problem is being solved with much variation given the observed adjustment within actual incidents. Lastly, a modifiable theory can be altered when new relevant data is compared to existing data (Glaser, 1998).

Chapter IV Primary Findings

Shifting Demographics

As in many other cities throughout the United States, since the 1960's, many urban areas have experienced drastic demographic changes in their population. Savannah, Georgia, in particular, reached its population peak in 1960 and has experienced significant population decline, approximately 20,000, since this time (United States Census Bureau, 2000). According to the Census Bureau (2000), the South is the second fastest growing region in the United States, and Georgia is the most rapidly growing state within the southern region. However, the city of Savannah has experienced challenges in capturing this population growth. A significant component of this problem has been the characteristics of the local housing market making it difficult to compete with outerlying areas to keep current residents and attract those migrating to the Savannah area. The Census Bureau indicates that 52% of individuals that chose to live outside of Savannah did so as a result of housing related reasons. Much of this is related to the affordability of housing. With the Median Household Income in Chatham County being $37,752 and the average price for a home being $154,744, the affordable price for a home is approximately $41,000 below the average home sale. This represents a notable difference from the outerlying areas where the average price of a home is well within the affordability range. As residents with the financial resources to support mobility locate in outerlying areas, many inner city communities become catchment areas for those who can least afford to move elsewhere. Thus, the conditions are set for the formation of an inner city characterized by concentrated poverty.

Additionally, with more housing structures built before 1939 than any other city in the State of Georgia, with 62% of the housing stock being over 30 years old, and 27% being over 50 years old, the city is faced with an abundance of significantly older deteriorated housing. Contrastingly, 60% of the housing stock in outerlying areas is under 20 years of age. A 2001 housing survey conducted by the City of Savannah, found that out of 11,227 housing structures, 74% of them required some level of repair. Thus, while the city of Savannah is widely known for its beautiful and historic architecture, this poses a dichotomy. The presence of older homes provides an excellent opportunity for historic preservation, but those living in poverty throughout these communities have their poor economic condition exacerbated because of their lack of resources. With the National Trust indicating that nearly one-third of households in poverty reside in historic homes or those older than 50 years, Savannah then is a most appropriate environment for assessing the intersection of poverty, need for affordable housing and historic preservation processes.

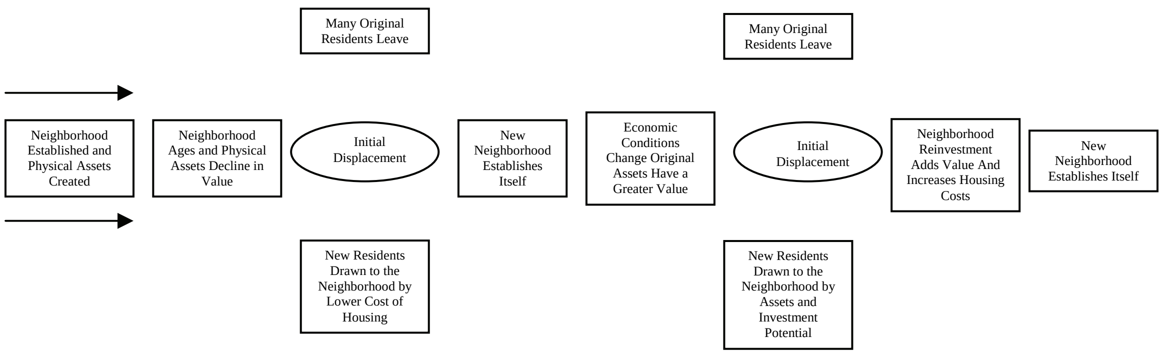
Indicators of Neighborhood Transition

Another issue revealed as a result of the interaction between the population dynamics and the character of the housing is the issue of gentrification. Processes of gentrification generally occur in areas where there is architecturally distinctive older housing, as in Savannah, that is inexpensive but has high market value once rehabilitated, ease of access to amenities (e.g. retail, restaurant, etc.), and relatively strong employment opportunities for new and better educated residents.

Unfortunately, this tends to take place in high poverty/low income African-American neighborhoods and they are displaced from these communities. The incoming residents who are driving the gentrification tend to be younger professionals with higher levels of education, median levels of income with a smaller household size. Thus, gentrified communities generally experience demographic changes along these lines and also show large increases in housing prices (both rental and home value). Obviously, this drives the need for the development of affordable housing in these communities on a scale sufficient enough to house those in poverty. To illustrate the additional pressure placed on these households in areas threatened by gentrification, the research will proceed by making assessments on historic preservation, affordable housing development, and demographic dynamics in communities with significant historic preservation processes at work.

The target areas of this research focus on three distinct communities within the inner-city of Savannah, GA: the Victorian Historic District, Cuyler-Brownsville and Thomas Square. These three communities have been identified by the Savannah-Chatham County Metropolitan Planning Commission (SCCMPC) to be in danger of gentrification (SCCMPC, 2005). To assess the degree of change that has transpired in these communities, U.S. Census data were reviewed dating back to 1960. Because of variations in the variables selected by the Bureau, years unavailable were omitted. However, data for the periods of 1960 and 2000 allowed an assessment to be made on the degree of neighborhood socio-economic transitions. One of the objectives of this assessment is to apply a model (SCCMPC, 2005) that measures and tests the influence of gentrification on housing costs in poor neighborhoods (see Figure 2).

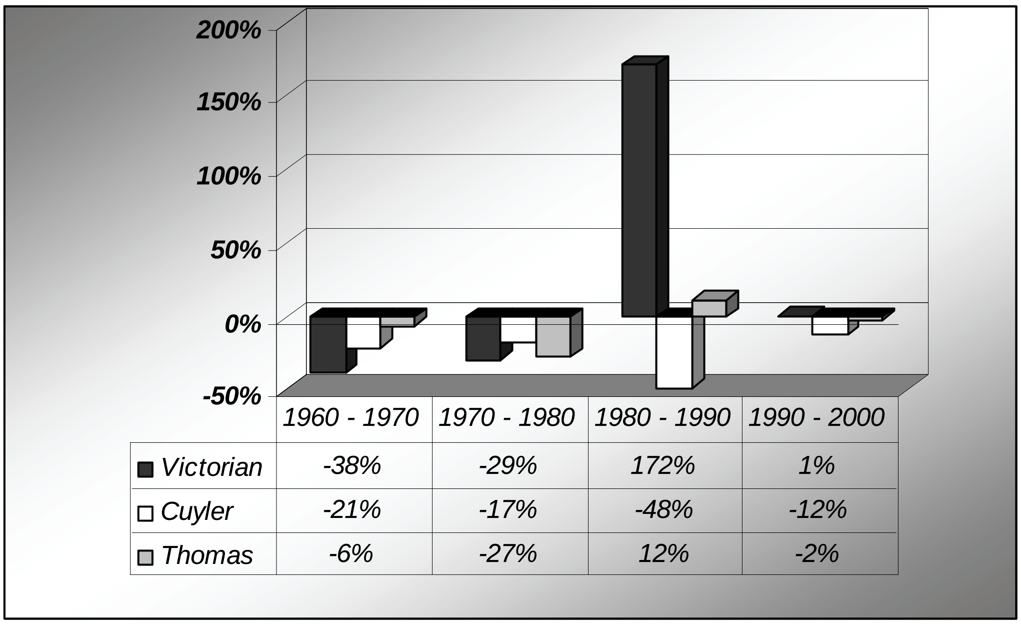
Figure 2: SCCMPC Model of Neighborhood Transition and Gentrification



In general, the process is initiated in older neighborhoods with declining values of physical assets. An initial displacement occurs through population decline and new residents transition into the community. This is then followed by an improvement in economic conditions (increased income and house value) and new residents continue to move into the community. The new residents have the characteristics of young gentrifiers, thus providing a basis for assessing the target communities and indicating their stage in the process.

The model is an accurate depiction of what has taken place in the Victorian Historic District and depicts the potential future direction of Cuyler-Brownsville and Thomas Square. Of the three target communities and in contrast to the overall city trend, the Victorian District is the one community that has experienced significant population increase after a period of decline. From 1960 to 1980, this community experienced significant population loss (1,532). However, by 1990, the population had increased by 172%. As a result of its proximity to a local Arts & Design College, many students amongst others now reside there - to the degree that the community has now become absorbed into the adjacent college culture. Thus, this population has remained relatively stable and has established a new community. The Thomas Square community started to experience some population growth again from 1980 to 1990. This growth is marginal in the 1990 to 2000 period. However, the Cuyler Brownsville community has consistently lost population since 1960 (see Table 4)

Table 4: Population Loss/Gain in Target Communities

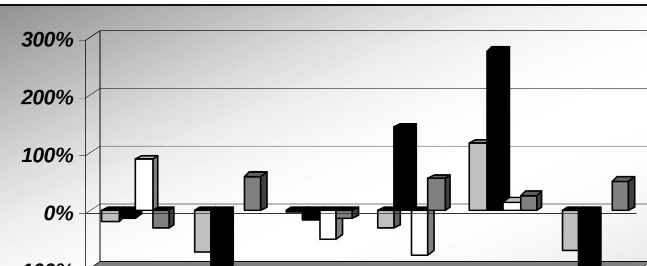


	1960 - 1970	1970 - 1980	1980 - 1990	1990 - 2000
Victorian	-38%	-29%	172%	1%
Cuyler	-21%	-17%	-48%	-12%
Thomas	-6%	-27%	12%	-2%

The next step in the modeling process is that after the original residents leave, new residents move into the community. One of the ways to measure new residents is to consider the shifting demographics of race (see Table 5). Change in racial composition indicates a change in population based on the arrival of new residents. The population shift in the Victorian District during the 1980 to 1990 period consisted of an increase in the Black population by 1071 and 980 (from approximately zero in 1980) in the White population. This trend has continued up to 2000 as more residents are attracted to the district.

Both Cuyler-Brownsville and Thomas Square are indicative of neighborhoods in flux. While Cuyler-Brownsville has experienced consist population loss, there have been relatively small periodic jumps in the white population in this community (1970 – 1980 and 1990 – 2000). However, much of this is offset by the large drops in population interspersed throughout these growth periods. The Thomas Square community has experienced periods of growth amongst the Black community since 1960 and the White community since 1980; however, not enough to overcome the total population loss. In fact, it appears the new arrivals have a balanced demographic (higher income and low-income). Further indications of the arrival new residents are indicated by looking at age and education.

Table 5: Racial Demographic Changes in Target Communities



	Victorian-Black	Victorian-White	Cuyler-Black	Cuyler-White	Thomas-Black	Thomas-White
1960 - 1970	-18%	-70%	-2%	-30%	117%	-68%
1970 - 1980	-13%	-100%	-16%	144%	276%	-100%
1980 - 1990	89%		-48%	-77%	15%	
1990 - 2000	-30%	59%	-14%	56%	26%	52%

Shifting Age Groups

As mentioned, a characteristic of a gentrifying community is a shifting age demographic to a younger community. In 1960, the majority of residents in the Victorian District were between the age range of 35 to 54. By the year 2000, the most typical age for a resident was between 20 to 34 (the majority being in the grouping of 20 to 24). The concentration of ages throughout Cuyler-Brownsville has remained relatively unchanged with significant numbers being above the 35 to 44 age group in 1960 and above 65 to 74 years of age in 1990. The year 2000 is characterized by a drop in age back to the 35 -44 age group; however, this community has significantly older residents than the other target communities. The central range for the Thomas Square community has remained relatively flat since 1960. Most residents center in the age grouping of 25 – 34. However, this community is also characterized by a fairly uniform distribution throughout the past 40 years.

Marital Status and Education

The population shift is also indicated by the marital status of residents. While the number of single males and females has doubled in both Cuyler-Brownsville and Thomas Square, they have more than tripled in the Victorian District. Both the Victorian District and Thomas Square have experienced shifts in educational level reached. In the Victorian District, the number of individuals who only attained "some high school" dropped from 40% to 15% as a percentage of the population (1960 to 2000). The percentage of those who are listed as having "graduated from college" increased by only 2% of the population; however, the total numbers are notably high relative to the population increase. In Thomas Square, those listed as having "some high school" dropped by 11% and the number of college graduates increased to 16% of the total population (1960 to 2000). The educational level in Cuyler Brownsville has remained relatively unchanged from 1960 to 2000.

Tests of Significance

With the notable declines in population (original residents) and the arrival of new residents identified, a test of statistical significance of change was performed on house value, gross rent, and family income for the period of 1960 to 2000. As mentioned, to determine the changes of these variables in the target communities, the Two Group Design: Chi-Square Median Test was utilized. Contingency tables were formed to account for the number of observations above and below the mean (see Appendix). This allows for a test that considers the full array of observations (similar to a mean score) and their variations between time frames of categorical data (Lehmkuhl, 1996). Thus, more specific data on is provided in the appendix. The following formula was utilized to calculate the Chi Square:

$$\chi^2 = n_t \left[\sum_{r=1}^{R} + \sum_{c=1}^{C} + \frac{n_{rc}2}{n_r n_c} - 1 \right]$$

A two by two (2 x 2) contingency table was utilized resulting in one degree of freedom (df). Those tests (Table 7) that resulted in statistical significance are listed as follows:

Table 7: Chi-Square Median Test of Statistical Significance

Community	Time Frame	Variable	$\mathbf{X}^2_{.95}$
Victorian Historic District	60' to 90'	House Value	5.38
Thomas Square	60' to 70'	House Value	17.27
Thomas Square	80' to 90'	House Value	9.73
Thomas Square	90' to 2000'	House Value	16.77
Victorian Historic District	60' to 90'	Gross Rent[a]	15.75
Victorian Historic District	90' to 2000'	Gross Rent[a]	28.96
Cuyler-Brownsville	90' to 2000'	Gross Rent[a]	14.05
Thomas Square	90' to 2000'	Gross Rent[a]	65.72
Victorian Historic District	60' to 70'	Family Income[b]	10.96
Victorian Historic District	70' to 2000'	Family Income[b]	6.40
Cuyler-Brownsville	70' to 2000'	Family Income[b]	11.89

[a] 1970' & 1980" Data Missing
[b] 1980' & 1990 Data Missing

House Value and Gross Rent

Between 1960 to 2000 both the Victorian District and Thomas Square experienced statistically significant increase in their median house value. The Victorian District experienced a much more gradual change with it taking up to the 1990 Census to indicate a statistically significant increase in Median House Value. However, the Thomas Square community has had a much more abrupt change with values having statistically significant increases in each year with the exception of 1970 to 1980. Of particular note, the community of Cuyler-Brownsville experienced no statistically significant change. Thus, evidence exists to suggest that the value of homes in Cuyler-Brownsville has remained relatively flat and have not increased in value since the 1960's. With gentrification threatening original residents with displacement due to rising rents making housing less affordable, a test on the Gross Rent was conducted. All of the three communities experienced statistically significant increases in the Median Gross Rent.

Family Income

With the rising housing costs identified in the target communities, the capacity of original residents to keep up with these costs can be based on family income. With the notable changes in demographics in the Victorian District, it is not surprising that the Median Level of income would experience statistically significant increases since 1960 (particularly with the notable decrease in individuals who have only reached the level of "some high school" and a major increase in those who have at least "some college"). A statistically significant increase in median income for the Cuyler-Brownsville neighborhood can also be attributed to increased levels of education. While there exists a small drop in those who have a college degree and those with some high school, an increase existed for the number of individuals who have completed high school. While the Thomas Square neighborhood has experienced changes in its demographics and statistically significant increases in median house value and gross rent, there exists a lack of statistically significant changes in median family income since 1960. Although educational improvement is observable, this community still has large percentages of individuals living below the poverty level (areas with poverty percentages ranging from 21 to 58%). In fact, the Thomas Square community has more people living in poverty than the historical Cuyler-Brownsville community, but less than the Victorian Historic District. But, Thomas Square doesn't have the same magnitude of socio-economic shifts to offset the influence of high poverty levels as the Victorian Historic District.

The gentrification model utilized provides a theoretical framework to organize the empirical data in a manner that illustrates the challenges posed to historical communities and residents as a result of community transition. Unfortunately, as housing value and gross rents increase, those living in poverty are threatened by an increased burden to pay for their housing. In regards to Metropolitan Statistical Areas in the state of Georgia, Savannah is only second to the Athens, GA MSA in regards to the percent (40%) of cost burdened renters (need citation). Communities already face challenges regarding sufficient production of affordable housing. However, producing affordable housing in an environment where the process is even more complex because of historical preservation processes can be further stifled as a result of the additional barriers encountered.

The identification of barriers to affordable housing production is important because of the impeding effects on private, market-based development. The government regulations on housing development have been adopted with good reason, to support and monitor the private sector and to promote and protect the public good. However, many local governments use their sovereignty to thwart free market forces by maintaining regulatory barriers that raise housing costs and limit housing affordability (Downs, 1991)

The two incentives – the Historic Rehabilitation Tax Credit (HRTC) and the Low Income Housing Tax Credit (LIHTC) supported by preservations and housing advocates as the key to attracting private development to the affordable housing market are considered market-oriented approaches because they offer tax benefits over direct monetary subsidies to spur investment. These incentive programs have also been found to present barriers to affordability in it efforts to promote private capital accumulation. Through its various practices and patterns, the free market and its agents also have created barriers to affordable housing production as it directly encourage and rewards disinvestment in search of better exchange values (Smith, 1998, p. 480)

The barriers identified in the literature within current public policy and programs and private practices that most impact the use of historic preservation to produce affordable housing are: subjective building code enforcement, prejudicial appraisal/ lending practices, multiple/extended public review processes; cost-inflating incentive criteria; program preference for larger scale projects (> 24 units) and single site locations; affordable housing "opt- out" clause; and anti-double funding rule. This chapter will examine the identified barriers in the context of actual affordable housing/historic preservation project in Savannah, Georgia.

Preservation, Affordable Housing Rehabilitation Inherently more Costly

Rehabilitation Incentives, Housing Subsidies drive up Project Costs

The City of Savannah Housing department estimated that more than 24,000 very low to low-income households needed quality, affordable housing last year. With 51,378 households documented in Savannah (City of Savannah Neighborhood Profiles, 2004), this estimate reveals a great need for affordable housing in the city. But overall, the City Housing department estimates it would cost \$1.2 trillion dollars to produce all the required affordable housing to support Savannah's poor urban families. No distinction was made between rehabilitation and new infill construction in the presentation of these figures.   In the above-mentioned report, the average cost to provide quality, affordable housing is \$90,000 per dwelling. More specifically, these costs are primarily 'soft costs" such as professional fees, legal expenses, financing interests and other general overhead (Nahas, 1994, p. 458) that would not be covered by the LIHTC incentive and other federal housing finance programs. Nahas (1994) states that these soft costs are what differentiate affordable and market rate developments as the forms of financing utilized such as tax credits and public agency assistance necessitate many of such costs (p.458).

When considering historic preservation's role in affordable housing production, one must acknowledge that the goal of its lead incentive, HRTC, is not affordable housing (HUD, 2001, p.118). Rather, the goal of HRTC is to encourage the preservation and/or the replication of historic materials, workmanship, etc. which protects the historic integrity of the house or structure. This core principle increases project costs by requiring certain materials and by causing delays in waiting for state preservation reviews.

HUD's 2001 report on rehabilitation barriers found that because the Secretary of Interior's rehabilitation standards have cost implications, smaller projects with lower economy of scales are more likely to suffer in quality or to be abandoned (p. 123). This possibility seems to contradict earlier claims that historic preservation and its HRTC can work to attract enough private investment to help increase the supply of affordable housing by reusing historic, urban houses.

The West Broad Gingerbread project: Market-rate developer tries affordable housing In a face-to-face interview, Savannah-based private developer Michael Brown reviewed his current joint rehabilitation/affordable housing project and confirms several barriers identified previously. Like Leopold Adler, II, founder of the Savannah Landmark Rehabilitation Program, private developer Michael Brown recognizes the value of old buildings. When contemplating the use of historic practices and reuse of historic structures in the production of affordable housing, he recommends the Secretary's standards to protect the historic resources and ensure a certain quality of work. Brown considers the HRTC as a reward for doing "a nice rehab job". He said, most private developers think, "Why bother with better. If I use crap material and design, that's just saves more money for me." Here, it is the government's job to ensure that public monies spur good design and to protect surrounding property values. Along with reaping higher tax revenues from rehabilitated housing, the respective local government benefit from longer-lasting housing adds to the use value of the block, neighborhood or community, and maintains its exchange value in the market.

Public Financing Program Prolongs Project Start reveals Additional Costs

Multiple and prolonged public reviews of joint rehabilitation/affordable housing has been identified in the literature as a barrier to producing affordable units. Brown described his effort to rehabilitate 11 units of affordable housing in the Savannah Victorian district as "overwhelming" due to the nine month approval process mandated by the local housing finance agency. Brown agreed to finance his small scale, housing project through the Community Housing Services Agency, Inc. (CHSA), a non-profit corporation that helps provide and arrange low-interest financing using HUD/CDBG funds to leverage some private financing to develop affordable housing. In this instance, a protracted application process translated into lost time and money for the investor. The process consisted of a review by the local zoning appeals board as the City required Brown to pay for land surveys and a revised subdivision plat to show each of the five, historic buildings on its own parcel.

Brown said while CHSA is a "well-meaning program", its procedures are detached from basic business practices. "What they don't realize is the [property] taxes are running, the insurance on a vacant building is threw the roof, and the [acquisition] mortgage is running," he said. "In that nine months, that [acquisition] cash could have been in the bank earning interest or could have bought something else."

In 2002, Brown purchased five residences and one commercial space at the western edge of the Savannah Victorian historic district for $220,000 on behalf of his firm, Durbin Holdings, LLC. Historic Savannah Foundation, the local preservation non-profit, purchased the buildings earlier that year to protect them from demolition by the City of Savannah. More importantly, the organization utilized CDBG funds provided by the city's housing department. This strategy allowed the organization to attach stipulations requiring preservation of the building and redevelopment into affordable rental housing for at least five-years (Historic Savannah Foundation winter newsletter, 2002, p. 1).

Elusive Rehabilitation Estimates slow Public Funding Process

The West Broad Gingerbread rehabilitation project was to convert a severely dilapidated, late 19th century building into safe affordable housing that also maintained its historic façade and architectural integrity. Brown admitted to starting with a very liberal rehabilitation estimate, "not knowing what we were going to find behind the walls." However, the CHSA reviewers required a much tighter project budget. Brown blames this unrealistic requirement on funding guidelines that are geared toward new construction. "[The city] must have done 10 different proposals with 10 different estimates," he said. "The irony of it is that all the numbers were all pure speculation anyway. It was based on an educated guess."

By its very definition, rehabilitation is inherently unpredictable as it seeks to repair an existing structure and leave most of its present features in tact. When conducting rehabilitation with subsidies or incentives, cost estimates must be prepared in advance due to funding deadlines despite the fact that costs will surely go up by the time work actually begins (HUD, 2001, p. 59). HUD (2001) also noted that state and local government has some influence as their respective codes directly impact the estimation process (p.60). Rehabilitating properties in jurisdictions where the building code environment is less supportive on such work tends to be more problematic. According to the Georgia Department of Community Affairs (DCA), the state's Standard Existing Building Code and the Standard Housing Code makes certain concessions for historic buildings as long as safety and emergency egress is not hampered. However, DCA also noted that these existing building codes are permissive codes that city's can choose to implement or not (DCA, 2005).

Historic rehabilitation projects seeking the HRTC must find a balance between the Secretary's standards which require the preservation of interior plaster walls, door frames and moldings and the current building code which traditionally calls for interior demolition in order to upgrade systems. Also, using less evasive techniques requires specialized and experience craftsmen and is much more labor intensive, both additional costs bourn by the project developer.

Rent Subsidies threaten Historic Interiors, clash with HRTC

In July 2005, Durbin completed its first in five exterior rehabilitations on the most architecturally significant building in the complex. The historic quadraplex, built in 1898, offers a double, front gallery (or two-story front porch) finished with an ornate pattern of wood details and trim known as "gingerbread". This decorative, exterior feature was popularized during the Victorian era, 1870-1890, when mass production technology eased the creation and use of such detailing on the middle class, wood frame home of the day. As a multi-family structure, Brown said the "gingerbread" building offered the more square footage and number of units needed for an efficient and profitable development project. Durbin will receive Section 8 rent subsidies from HUD through the local public housing agency for each of the four rental units.

Brown lamented that because the subsidy amount is based on the number of bedrooms; inner rehabilitation often costs more and negatively affects the historic house. "You have a hard time coming up with your unit (floor plan) design, adding bathroom and bedrooms," he said. "And if you're using the (rehabilitation) tax credit, you're also trying to keep the interior fabric and original design." Its architectural significance qualified the "gingerbread house" for the preservation HRTC. This one rehabilitation is estimated at $249,000. According to Brown, Durbin Holdings, LLC will receive 20% HRTC on the hard or "brick and mortar" costs and that tax credit will reduce each partner's tax liability. If too much original fabric, interior and exterior, is found to have been lost during the final certification of the HRTC rehab project, the partners will lose the tax credit. Brown said most developers will skip the tax incentives and sacrifice the historic building in exchange for the higher subsidy. "You could make a whole bunch of crappy little bedrooms… and get a lot more (rent) money," he said "That's not a good criterion to base [housing quality] on, especially for a historic house." Brown suggests Section 8 rent subsidies be based on square footage.

Revised Historic Tax Credit Policy weakened Credit; Syndication skips Small Projects

HRTC began in 1981 as a three-tier investment credit that issued a 15 percent credit to buildings at least 30 years old up to a 25 percent credit available for the rehabilitation of historic income producing residential and non residential properties 50 years old and older. Investors using the investment credit could deduct dollar for dollar against their federal income tax liability (Listokin, Listokin, and Lahr, 1998). The 1986 Tax Reform Act replaced the tier with a flat 20% tax credit for a substantial rehabilitation of buildings certified at least 50 years old and contributing to a National Register historic district. The new act also restricted application of the tax credit to only passive income generated from real estate and other investment.
Michael Brown said, "When the tax laws changed, a lot of doctors, lawyers and other rich investors got a big tax bill."

Under the 1986 act, the tax credit could not be applied against wages, dividends and other non-passive, earned income. It was this feature that attracted wealthy investors and small developers to invest in historic rehabilitation partnerships. Tax credit projects plummeted from a high of 3,117 projects in 1985 to a low of 538 in 1993 (p.447). Brown said the HRTC helps to offset the cost and/or delays of using preservation practices to do affordable housing. "But then you have another bureaucracy to go through which makes it really hard," he added.

The partners in Durbin Holdings, LLC will use their respective HRTCs. With more sizable projects such as the 300-unit Savannah Landmark Rehabilitation Project, HRTC and Low

Income tax credits (LIHTC) are sold to investors to raise the cash equity needed to finance the project. Brown said there is no syndication or resale market for the credits for smaller projects, 24 units or less. “[I]t has to be a $1 million worth of tax credits. That means it has to be a $5 million project,” he explained. Also, because there are significant fees for syndicating or selling HRTC or LIHTC tax credits that are not covered under either incentive, developers bare another cost to finance their projects.

In 2000, Banc of America Corporation created a $25 million historic tax credit fund in cooperation with the National Trust for Historic Preservation, which focuses on investment projects of less than $2.5 million. Specifically, this program will target historic properties in urban, small town and rural areas, eligible for as little as $500,000 in federal and state historic tax credits (National Trust website, 2nd graph, 2005). “They’re definitely not going to touch anything under $250,000 (credits). Even that means the project has to be at least $1.2 million,” Brown said. He added that smaller developer would have to give up ownership of the housing to those investors buying the credits in exchange for the cash equity. Small project developers are left to locate other means of financing. While there are several different sources, Brown said, “The problem is access. They are just very difficult to get.”

Mercy Housing Southeast Project: A Modern Day “Savannah Landmark” Project?

The above-mentioned Savannah Landmark Rehabilitation Project (SLRP) was a private, non-profit housing program that preserved and reused 300 historic Victorian units as affordable rental housing in Savannah, all in the face of market-based gentrification. First, SLRP used private funds and philanthropic grants to buy dilapidated structures. By 1982, it has secured rehabilitation funding and rent subsidies to provide nearly 300 units of affordable rentals in the Savannah Victorian district. SLRP is presented as the model for harnessing the value of historic property and the power of preservation practices for the production of affordable housing for urban poor.

In 2000, private, nonprofit housing developer Mercy Housing Southeast, Inc. created 88 new units of affordable rentals in another Savannah historic district through the rehabilitation of two historic structures there. Mercy Housing is considered a private partner in the city's overall redevelopment of the Cuyler-Brownville historic district. Additional funding for the development was also provided by the City of Savannah, Community Housing Services Agency, Inc., and the Mercy Loan Fund. Like the Victorian district in the late 1970's, nearly half (49%) of the units in Cuyler-Brownville today are rental units and one-third of the households there live below the poverty line (City of Savannah, 2004).

In a telephone interview, Robin Haddock, Project Developer for Mercy Housing reviewed the challenges of combining historic preservation with affordable housing production. "The City has targeted the Cuyler-Brownsville Historic District as a priority neighborhood for revitalization, and Charity Hospital and Florance Street are institutional monuments to the neighborhood's history. This development will address the critical need for affordable rental housing and the strong community desire to restore and preserve these two architectural and historical treasures," said Robin Haddock, Project Developer for Mercy Housing.

Inflexible Historic Review Process Delays Projects, limit Credit Effectiveness

Mercy Housing Southeast combines both the HRTC and the LIHTC to help finance the project. Mercy Housing partnered with a for-profit developer/contractor, the Norsouth Corporation on the $8 million project. Mercy received $6.3 million in LIHTC (Mercy Housing website, 2000). In exchange for its investment, Norsouth Corporation received the equivalent portion of the tax credits. The rehabilitation project included construction of a new residential addition to the historic school building and a stand-alone community center.

Historic credits (HRTC) were awarded for the rehabilitation of the Charity Hospital but were not for the Florance Street School due to various design elements of the new addition, according to Haddock. Under the state historic preservation review process, a developer must prove that every hard cost pertains to existing historic material or replicating such material if it is unsalvageable. In the Florance Street school project, Haddock said the state reviewer "did not like the windows" proposed for the new addition to the historic building. Pre-existing wooden divided light windows were retained and replicated on the original school structure. However, the state did not accept the argument that simulated multi-paned windows were appropriate for the newly constructed addition. It wanted wooden divided light windows used instead. These windows were chosen to save cost but ended up costing Mercy the respective historic tax credits.

In its second phase of affordable housing development, Mercy Housing Southeast purchased 18 buildings on multiple sites still within Cuyler-Brownville. This phase also combines historic rehabilitation and new construction to produce 70 units of affordable housing. The two rehabilitated historic developments, Heritage Corner and Heritage Row, will include one-, two-, and three-bedroom units with modern baths and kitchens within historically accurate exteriors. The units will serve families with incomes ranging from 30% to 60% of the Area Median Income. Mercy pursued HRTC for the second phase as well. This time, Haddock said, Mercy spent considerable time reviewing their plan with state preservation reviewer. "At first, they just pulled out their textbook to review this project," she explained. "But once they began to visit the sites, it got much better because they could see what we were dealing with." Haddock said the need for ongoing face-to-face meetings with state preservation reviewers delayed Mercy's start up until January 2005. Under the LIHTC awarded earlier, the Heritage Corner/Row must be completed by December of the same year, giving only 12 months to substantially rehabilitate more than 40 very dilapidated units.

Anti-Double Dipping Rule reduce Benefit of combining HRTC and LIHTC

For this second phase, the primary sources of financing for the $7.7 million development will be Low Income Housing Tax Credits and Historic Tax Credits which will be purchased by investor, Guilford Capital Corporation. Like the 1970's SLRP, Mercy Housing has chosen to concentrate its acquisitions and rehabilitations within one historic district, thereby increasing its positive impacts on community aesthetic and economic attractiveness. A total of 158 affordable units will have been created under this overall Mercy Housing project.   It is also adhering to the federal historic rehabilitation standards for the exterior rehab and interior renovation as required under the HRTC program.   Also, Mercy's project financing also included local tax abatements by the city and county governments and private grants, such as the $150,000 Affordable Housing Program (AHP) grant from the Federal Home Loan Bank of Atlanta as SLRP did.

Mercy Housing is utilizing the Low Income Housing tax credit, which did not exist at the time of the SLRP project, as a major funding source. Under LIHTC regulations, the investing partner commits to charging rents affordable to qualified low-income residents for at least 15 years. No assured direct subsidy is available to offset the impact of reduced rent income. If the low rents are insufficient to support the housing project, the tax shelter benefits of the tax credit must be used to assure project viability (Polton, 1994). The Heritage Place/Corner/Row units will not receive rent subsidies, which were the life blood of the SLRP project, because of its LIHTC award. Here, the combination of the LIHTC and federal rent subsidies are viewed as double subsidies for Mercy as was the combination of the Section 312 rehab loans and federal rent subsidies for the SLRP effort. SLRP received several waivers in order to combine Section 312 and Section 8 funding (Adler, et al, 1983).

Also, federal tax code requires that the credit from HRTC be subtracted from the housing construction expenditures used to calculate the LIHTC (Listokin, et al,1998, p. 449) For this loss, Listokin (1998) offers the concessions that HRTC can be applied to non-housing portions of project and that the HRTC can be used by the investor in the first year after project completion whereas the LIHTC must be spread out over 10 years (p.449).

Modern Building Codes unforgiving to Historic Buildings

In the construction stage of production, Mercy developers also face the challenge of fortifying older housing that was "cheaply built in the first place", according to Haddock. The historic structures in the second, Heritage Corner/Row phase were built to house Black laborers just prior to the turn of the 20th century. Each building holds two, three and four units, each designed with small bedrooms and narrow hallways. Several units were originally built without indoor bathrooms. Haddock said it was nearly impossible to meet the demands of building codes and modern living functions with the existing units in Heritage Corner/Row. "We had to do a substantial rebuild on these units," she added.

Mercy strove to preserve the exterior elements of the wood-frame structures, paying close attention to the siding, windows, doors and front porches. Details like this cause Mercy to spend more than their qualified cost basis covered by the LIHTC. However, Haddock is hopeful that selling the HRTC to investors will raise the capital needed to absorb these problems. She used the term "hopeful" because the project cost estimates may changed as the rehabilitation reveals other repairs.

With the building code and local permit review combined with state preservation review, the project's final plans and specification were completed after the initial cost estimates. "We won't have any real number until further down the road, Haddock said. Here, Mercy uses its predevelopment line of credit until permanent financing is approved. Also, Mercy does not collect its developer fee until the project is done. As a national non-profit corporation, Mercy can make that adjustment. However, most small-scale developers may not have the capability or needed access. This reality presents another barrier to the goal of attracting small and medium private developers into the affordable housing market with these various incentives and development programs.

Need for Urban Scatter Site Projects is Real; Preference for Single Site Persists

Both the SLRP and Mercy Housing projects are considered scattered site developments because the units exist within multiple structures rather than centralized within one site or on one large land parcel. SLRP founders noted both positive and negative aspects of developing a scattered site project. The main benefits were the immediate catalytic effect and long term, stabilizing effect of such re-investment. Haddock also reports increased private rehabilitation and upkeep of neighboring Cuyler-Brownville residences (Mercy Housing website, 2004). Having property owners and homeowners show greater interest in their properties located on the same street as an affordable housing rehab defies the common assumption that low-income rental housing undermines the demand for and value of owner occupied and commercial property (Adler, et al, 1983). Harvard's Joint Center for Housing Studies concurs in its 2003 study. In fact, the study finds that working class communities with multifamily housing have higher house values than other types of working class communities (community Banker, 2003).

On the downside, scattered site housing projects still face resistance in both the public and private sectors. Haddock said Mercy encouraged the City to lobby for a change in state housing policy to allow LIHTC funding for scattered site projects. The state amended Georgia Department of Community Affairs (DCA) policy to allow scattered site projects in 2003. The amended policy allowed four to six units within a one mile radius in urban projects. Mercy's Heritage Corner/Row qualified as a scattered site project and received its LIHTC under these new criteria.

According to Georgia DCA staff, no scattered site applications have been submitted in 2005. The LIHTC tax credit is a market incentive created to spur private investment. However, it is not drawing any participation from private developers, nonprofit CDCs or municipal entities. This slow market response point to these government programs as failing and could lead to the repeal of the scattered site criteria, according to DCA staff interviewed by phone for this study.

Admittedly, scattered site projects prove difficult in nearly every phase of production from acquisition to occupancy/rent-up, explained Haddock. “Everything from delivering supplies to the right building to explaining to the surveyor he’ll be doing several sites but that its one project”, she said. “The LIHTC only pays for construction. So as a developer, you need an operating budget so that in 10 years you can run your project successfully.” Affordable housing projects supported with federal funds or incentives must comply with occupancy rules that require full occupancy within the first years. HUD also requires project managers to maintain extensive files on the property and tenants as well as to monitor tenant income eligibility and assist them with recertification processes. Again, Haddock warns that smaller private developers may not have the capacity to comply with post-construction requirements that come with federal tax credits or subsidies. “There’s more to being a tax credit developer than getting the credit and doing the rehabilitation,” she explains. “You’ve got to have a team that understands the programs. You must have a management company that knows the [compliance] rules.”

Haddock noted that this type of development - tax credit development – has its own unique challenges: it is very competitive with applicants having a 1-in-4 chance of receiving the LIHTC; it is an expensive process to undertake with an initial application fee averaging $20,000; it is a lengthy endeavor, taking up to three times longer to complete than conventional private development; it requires a critical mass of units, 50 or more.

LIHTC “opt-out” Policy allows Developers to Sell Out, creates Need for more Units

While the housing produced under the LIHTC program satisfied a social need for affordable safe housing for urban poor, the incentive itself is structured to provide an attractive incentive for investment (Polton, 1994). Because the mandatory low rents limit the direct economic return of the project, many investor look forward to a return of their initial equity at the sale of the property (p.450) Understanding this aspect of the market, the LIHTC program requires the owner/entity to retain the property 15 year, after which it can sell out. Haddock explained that DCA required the seller to find a buyer who will honor the 20 to 30 year commitment made in order to get the LIHTC. However, if such a buyer is not located within 3 to 5 years, market rate conversion can be accepted. This policy option finds housing advocates and local governments struggling to replace those units sooner rather than later.

While the Savannah Landmark Rehabilitation Project’s goal was to provide decent housing for the poor, 233 of its units produced in the 1980’s (under SLRP’s SNAP phases) faced conversion to market rate in 2002 as 20-year federal subsidies and affordability restrictions expired. This expiration was allowed under HUD regulations. City housing officials and local preservationists, including SLRP founder Lee Adler, II, urged HUD to enforce the preferential buyer clause. American Housing Preservation Corporation (AHPC), a corporation of Liberty Group, Inc. in Portland, Maine, purchased the units that year. As one of the nations leading experts in the financing and refinancing of Section 8 properties, AHPC committed to renewing the HUD subsidies and retaining those qualified tenants already occupying the affordable units. The units will be managed by Liberty Management, Inc., a subsidiary of Liberty Group.

Reuse of Historic Urban Resources for Affordable Housing continues to meet a Need

In the face of shrinking federal resources and competitive state funding processes, cities face the biggest challenge of keeping units in supply, Haddock said. Even locally managed housing programs offer a short holding period (e.g. five years) to developers.
"And if there's not new projects coming on line then, we'll face a continued shortage of housing," she added. In cities, like Savannah, whose economies depend heavily on the low-pay service industry, there is no hope that working-class incomes will increase in the near future. Haddock said, until then, "We need more money to provide affordable housing."

In the final, occupancy stage of production, Mercy will manage all of 158 units from their leasing office constructed in 2001-02. In their management program, Mercy also provides tenant support programs such as after-school programs, budget planning, and English as a Second Language classes. SLRP also managed its units and those developed as SNAP I, II, and III by Cranston properties of Ohio and maintained ongoing tenant relations and community outreach programs. A large pool of low-income applicants assures low vacancy rates for both SLRP and Mercy's Heritage project. Here, affordable housing enjoys an advantage of minimal turnover, 2% to 4% vacancy rates, and minor collection losses due to low rents (Nahas, 1994).

Compared to the 300 affordable housing units produced by the SLRP program, Mercy Housing Southeast has, thus far, produced 158 units. However, Mercy does serve those working poor who are not receiving federal rent subsidies and who are earning much below the 60% to 80%-of-median-income threshold used in most of HUD's housing programs. By lowering the rent threshold, Mercy may have responded to higher cost of living and inflation rates experienced over the past 20 years since SLRP. Also, founded in 1981 with a mission to provide affordable housing and now sponsored by the 13 Catholic religious communities committed to meeting that need, Mercy Housing, Inc. promises more financial stability and organizational longevity. In its 1983 summative report, SLRP called for organizations like Mercy Housing Southeast “to continue to provide affordable housing for the responsible poor.” But SLRP also urged for a “great reliance on the private sector” to accomplish this goal.

Chapter V Conclusions and Implications

Issue Areas Revisited

Urban inner city areas characterized with an older architecturally significant housing in need of rehabilitation and a high percentage of poor households are vulnerable to the influx of higher income persons and the displacement of low-income person (One Savannah: Report of the Gentrification Task Force, 2004). The loss of affordable, centrally-located urban housing units also contributes persistent poverty as poor households bear higher housing cost burden and concentrate in area where housing is affordable. Often, this concentration takes place in areas with historically significant (older) homes.

Nearly one third of poor households resident in homes considered older or historic (National Trust, 2004). The city of Savannah holds more structures built before 1939 than any other city in Georgia (Chatham county/Savannah Comprehensive plan, 2004). Of the 7,730 individual historic structures, 85 percent are located in Savannah's nine national historic districts. Six of these National Register historic districts, including the before-mentioned Victorian district, rest in the older, inner city core thus making poor households more susceptible to living in aging, substandard housing where their poverty is further exacerbated.

Historic preservation has been touted as a community revitalization tool that attracts private individuals and corporations seeking the profit potential offered by urban historic properties without government support (HUD, 2001, p.1). Historic rehabilitation is prevalent in U.S. urban centers where the majority of the housing stock is at least forty years old. It is estimated that at least 5 percent of all rehabilitations in the U.S. occur in properties designated as historic (Listokin, Listokin and Lahr, 1998). As the historic preservation movement continues to build, the interaction between preservation processed and those in poverty will increase.

With the high percentage of poor households living in historic areas and an active historic preservation movement, preservation and housing advocates now offer that historic preservation can be a tool to reuse and revitalize historic urban housing stock for affordable housing. The National Trust for Historic Preservation promotes combining historic preservation and affordable housing as a "natural fit" (National Trust, 2004). While historic preservation offers the benefits of additional incentives and higher values, it presents additional procedural and regulatory barriers. Also, these specialized barrier will join the numerous, other regulations imposed by local, state and federal government on the production of affordable housing.

The most significant challenge in the use of preservation in affordable housing production is its small scale orientation in the face of a large scale urban need. Current historic preservation practices generally target small scale projects involving fewer than five structures at a time and only involve vacant buildings as not to exacerbate current displacement problems.

The City of Savannah housing department projects the need to house more than 24,000 low-income households through the next few years. Dozens, if not hundreds, of residential units are needed in order to make an impact. There have been occasional larger scale projects that have been developed in Savannah through combined historic rehabilitation tax credits (HRTC), federal housing subsidies and mortgage loans and later low income housing tax credits (LIHTC): Savannah Landmark's 300-unit project (1977-1982); Mercy Housing's 88-unit Heritage Place project (2002). Both developers were non-profit organizations that received grants, abatements and other incentives that private developers can not access alone.

With potential sites scattered through urban neighborhoods and private speculation growing for these properties, large acquisition and land assembly is a must if private developer are to help meet local affordable housing. A cost-effective approach recommended in the research is the control and later transfer of at risk properties and parcels by local governments to for-profit and nonprofit developers committed to creating low cost housing. The conduit for this process is called a municipal land bank. This government entity acts as a depository or reserve for real estate owned by the government (Yarzebinski, 1994, p3). The land bank can acquire property through city surplus property donation, eminent domain, tax foreclosure and negotiated purchases. As a community development tool, land banking allows cities to time their development, and exercise control over the mix of uses in their neighborhood (p. 5)

The City of Savannah and Chatham County established a land bank program in 1996 with a $30,000 contribution from each of its annual operating budget. In an interview with City land bank officer, Pamela Lightfoot, she said the new land bank budget was not funded initially to acquire land. The budget would include an office, a computer, desk, phone and supplies but did not include the salary and benefits of the one part-time personnel. In 2004, the city council approved a full time land bank officer and administrative assistant for the land bank, Lightfoot said. It did not allocate the needed fund for acquisition.

Currently, the city looks to the local housing authority, which is a HUD agency, to provide the affordable housing, according to Lightfoot. With new federal housing initiatives like HOPE VI that focus on reducing concentrate project-based housing and creating more mixed income development, it seems the city faces a serious need to rethink its policy position on affordable housing. "Now, if you want the city to get involved in using its CDBG and [other

HUD] funds, the voters have to impress upon their elected officials that we need to develop [affordable] housing.

Housing advocates and non-profit developers struggle to quantify the housing needs in their respective cities. But according to Haddock of Mercy Housing, Inc. monitoring and tracking the movement of the poor within a city is very difficult. It is those facts and figures that are needed to document the need for city-support affordable housing development to elected officials and city policy makers. It would be those leaders who would chose to undertake a local initiative or to seek statewide support for a way to fund affordable housing development within its neighborhoods.

Several barriers to using historic preservation for affordable housing pertain to financing these type projects. The very nature of historic preservation and its accomplishment call for increased investment/ expenditure in order to truly revitalize and preserve that historic structure. One's additional investment is recaptured in the premium sales price or the HRTC tax incentive. But in the case of affordable housing, such additional investment threatens the project affordability, both for the small private developer and the tenant.

Both developers interviewed for this study pointed to the need for preliminary or interim funds to provide gap finance the project while the various government agencies review and deliberate on requested tax incentives for their projects. Brown specifically mentioned that soft, non brick-mortar costs for professional and legal fees, and insurance and security are not covered by the HRTC (or even the LIHTC). Haddock said such program require developers to have a project reserve and contingency funds but do not provide the resources for it.

Haddock and others suggest that such costs as well as actual hard, construction costs could be funded by a local affordable housing trust fund. The fund is a dedicated account or pool of public monies authorized by the state, established by the local government and funded with public revenue for the express purpose of affordable housing development costs (Center for Community Change, 2005) These government programs have developed across the country in just the past 25 years. By 1990, 17 states, including Georgia, had established state housing trust funds. Today, there are 37 states reporting housing trust funds.

Once enabled by the state legislation, both county and city government can establish their own local funds. While Georgia maintains a statewide trust fund for homelessness, local governments are prohibited from setting up a housing trust fund (Alexander, 2002, p. 5). Alexander (2002) explains that the Georgia constitution provides "that the proceeds from a particular tax could not be allocated to any special function" (p.5). This provision was adopted in 1945, when the state faced bankruptcy and found over 62 percent of the annual state budget was dedicated to a specific function. Only the mandated allocation of motor fuel tax revenues directly to the state Department of Transportation survived the provision.

This powerful constitutional provision created some concern that the General Assembly would be prevented from addressing social issues in creative ways (p.7). The state legislature had to confront this constitutional constraint in 1988 when it created a statewide housing trust fund for homelessness. Over time, Georgia has adopted various amendments and a 1976 ruling from the Georgia Supreme court that the promotion of low/moderate income housing constitutes a valid purpose can be interpreted as authorizing local governments to create affordable housing trust fund (p.10). Alexander (2002) asserts that cities must be careful to craft a program that does not usurp the states power to create and/or levy taxes. Instead, cities can earmark development impact fees, permit fees and real estate transfer taxes on high value real estate without state authorization. A dedicated revenue source is one of three key elements necessary for an effective trust fund. The revenue would also be exempted from the state's lapse or roll over provision. Here, the housing trust fund could enter into multiyear commitment without fear of losing its funds. The other elements are an independent board of directors to guide and administer the fund, and clear and specific structure of program distribution requirements, eligible applicants and uses, and administrative procedures outlined in the enabling ordinance.

In Savannah, about 22% of the population lives in poverty. The percentage increases to 30 to 40% in the historic, inner city neighborhoods. Local housing trust funds can provide substantial support in addressing affordable housing needs. These trust funds can be controlled by the local jurisdiction and targeted to meet local housing needs, and their limited geographic scale ensure flexibility to change the program as needed (Alexander, 2002). In 2004, the joint Gentrification task force listed the creation of a local housing trust fund among its twenty-two recommendations to both the City and county governments. According to Lightfoot, city bureau chiefs are in negotiations with City council to design such a fund "in house". She said the city officials do not want to put the issue up for a public vote for fear of a denial. For now, residents are urged to log their support directly with their elected officials.

Policy Issues

This leads to the overarching policy implication posed by the federal Advisory Commission on Regulatory Barriers to Affordable Housing (1990): Do cities have an obligation too promote the creation of low and moderate income housing through its boundaries? The commission recognized that local governments benefit directly from exclusionary zoning and regulatory practices (Downs, 1991) that lead to high housing costs and higher housing values. In its recommendations on how to ease such affordable housing barriers, the commission turned to the states power to regulate cities. It outlined six key approaches for states to take in order to permit developers to build and rehabilitate more affordable housing within all local communities:

- To establish a "target percentage" of housing that should be affordable in each local community to low and moderate income households. This standard is similar to local goals for low-moderate income housing mandated under planning regulation in California, New Jersey, Oregon and Florida.

    Also, the state of Massachusetts passed its Chapter 40B statute (know as the Comprehensive Permit law) in 1969 enabling local zoning board of appeals to approve affordable housing developments under flexible rules if at least 20-25% of the units have long term affordability restrictions.

- To enact a statewide zoning law that requires local governments to use fast-track processing for proposed housing developments that include low income occupancy and that allows states to override local zoning rules under certain circumstances.

    Again, under Massachusetts comprehensive permit law, the state government instituted the OneStop Low Income Housing application accepted by public and private funders of Massachusett projects. The 36-section form was develop by the Massachusetts Housing Investment Corporation, a for-profit banking/investment consortium, in cooperation with the state Department of Housing and Community Development and several other housing agencies. It is formatted in a spreadsheet program within a checklist and calculator foundation. The OneStop application includes portions for environmental, zoning, and architectural/design specifications. The form is available the corporation's internet website, www.mhic.com.

- To establish the legal right for all owners of single-family dwellings to create or maintain accessory rental apartments if the units meet basic statewide standards for safety and quality.

  The City of Savannah operates under a suburban zoning ordinance passed in 1962 (Chatham-Savannah MPC, 2004) which holds several residential district to low to moderate density levels. Under that policy, the city promotes the demolition accessory building or lane cottage in the city's historic neighborhoods developed in the late 1800's with a more dense urban development pattern. Such a state policy would enable older homeowner occupants to reuse their accessory buildings to provide needed low-income housing and supplement their incomes.

- To require every local government to identify which of its regulations raise housing costs and create a plan to reduce that impact over three years. This element could be included as part of the comprehensive planning requirements for all localities including Georgia.

- To create financial and technical assistance programs for local governments to encourage affordable housing development within their boundaries. This tool could also be used by private, locally based advocacy groups to promote affordable housing in specific communities. The incentives would include direct state financial aid for certain housing types and state bond financing that is federally tax-exempt.

    Here, much effort would be needed to mitigate against the development of strict qualification or high competition, as these constrains already limit the existing LIHTC and HRTC programs.

- To create a well-defined process for administratively settling conflict between local governments and state agencies overseeing the above-mentioned override processes. Effort would be needed to mitigate the constraints competition for such incentives.

With these recommendations, respective state governments could pressure its local governments to change their existing regulation to accept some responsibility for housing the poor and those with low incomes by reducing the cost of building it. Finally, the commission did recognize that federal agencies also have strong incentives for retaining regulations that raise housing costs. However, it conceded that political action on the part of those affected and their advocates would be more effective than any recommendation from it (Down, 1991).

An overwhelming share of rehabilitation in American cities is done by private individual and corporations seeking the profit potential offered by urban historic properties. With the introduction of the historic rehabilitation tax credit by Congress in 1981, private preservation investment activity across the U.S. grew from $738 million that year to a high of $2.416 billion in 1985 (Listokin, et al, 1998). Revisions under the 1986 Tax Reform Act instituted several limits and regulations for the tax incentive, however, this tax credit is still called "the most significant program involving historic preservation and the production of housing" (Listokin, et al, 1998). The incentive is available for income-producing residential and non residential projects conducted according to the Secretary of Interior's Standards for Rehabilitation on historic structures certified by the National Park Service.

Conclusions

With 12 million metropolitan housing units needing moderate to substantial rehabilitation, one third (33.7%) were occupied by very low and low income households (HUD, 2001), historic preservation approaches to rehabilitation are useful and prudent. It is the need for subsidies required to keep these units affordable that leads to regulations and practices that limit their production.

According to the National Association of Home Builders (NAHB), housing rehabilitation constitutes 2 percent of America's economy with more than $100 billion in rehabilitation or renovation being carried out each year (HUD, 2001). Perhaps the restored value of those properties could be harnessed and used to produce affordable housing in urban cities like Savannah that are undergoing a rehabilitation/development boom. The NAHB Research Center also points to the limited data on housing rehabilitation available to private business and government policy makers to make informed decisions to support America's rehabilitation industry and to design programs to promote housing rehabilitation, respectively (NAHBRC & the Joint Center of Housing Studies of Harvard, 2001).

As noted by public and private entities such as HUD and NAHB, respectively, there is a lack of sufficient information on rehabilitation practices and development regulations needed to promote the issue toward resolution or at least standardization. However, the need for flexibility in the regulation and review of joint preservation and affordable housing has been confirmed in this study by both public and private entities. Next steps may include presenting this and other studies to local and state elected officials in an effort to legitimize the issue as one of importance and worthy of their serious consideration.

The very nature of affordable/low income housing and its production in the American capitalist economy requires some type of financial subsidies to rent and to actually create the units. And since urban poverty threatens to persist in Savannah and the Southeastern region, at least through the next few decades, our search, as a nation, region and city, for ways to provide safe, decent housing for all citizen must also continue.

Appendix I – Statistical Testing Data

Victorian Historic District House Value

Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	5,000 – 9,900	13	0.43	0.57
1970	7,500 – 9,999	6	0.27	0.55
1980	30,000 – 34,999	13.5	0.10	0.52
1990	60,000 – 79,999	21.5	0.17	0.62
2000	150,000 – 174,999	7	0.04	0.51

Cuyler-Brownsville House Value

Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	5,000 – 9,000	373	0.57	0.82
1970	7,500 – 9.999	140	0.24	0.66
1980	20,000 – 24,999	87	0.16	0.65
1990	40,000 – 59,999	101	0.50	0.80
2000	50,000 – 59,999	85	0.24	0.68

Thomas Square House Value

Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	5000 – 9,900	122	0.53	0.63
1970	7,500 – 9,999	53	0.28	0.62
1980	20,000 – 24,999	37	0.19	0.57
1990	40,000 – 59.999	56.5	0.29	0.75
2000	40,000 - 49999	32	0.11	0.50

Victorian District Gross Rent

Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	40 – 59	407	0.53	0.75
1990	300 – 399	363.5	0.27	0.70
2000	500 - 549	74.5	0.06	0.51

Cuyler-Brownsville Gross Rent

Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	40 – 59	674	0.48	0.80
1990	300 – 399	209	0.38	0.76
2000	450 - 499	87	0.22	0.59

Thomas Square Gross Rent

Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	60 – 79	425	0.43	0.81
1990	300 – 399	370.5	0.32	0.74
2000	350 - 399	132	0.12	0.50

Victorian District Family Income

Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	2,000 – 2,999	130	0.21	0.51
1970	4,000 – 4,999	84	0.08	0.51
2000	15,000 – 19,999	203	0.13	0.58

Cuyler Brownsville Family Income

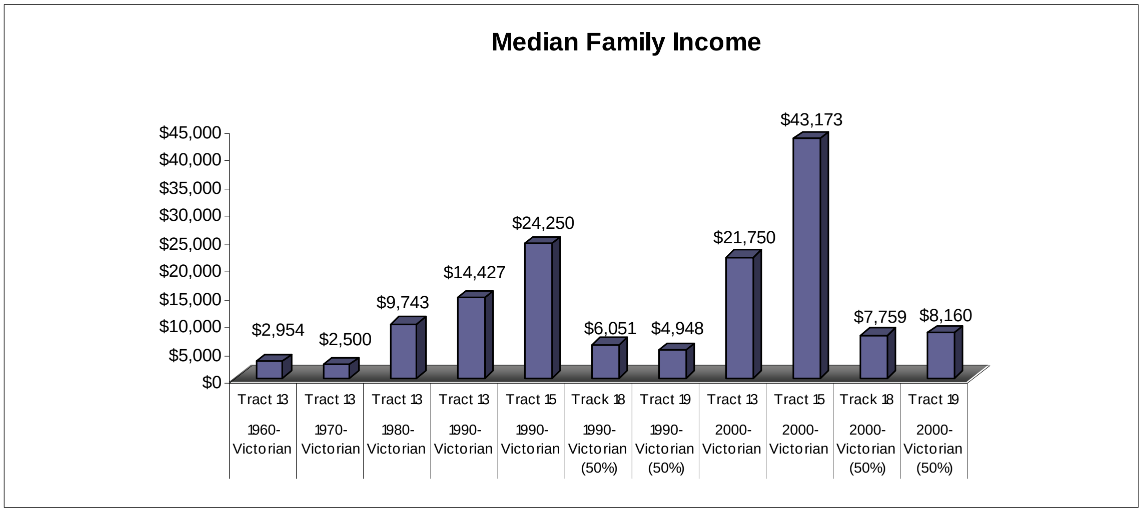
Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	3,000 – 3,999	313	0.18	0.62
1970	4,000 – 4,999	153	0.11	0.60
2000	15,000 – 19,999	128	0.15	0.55

Thomas Square Family Income

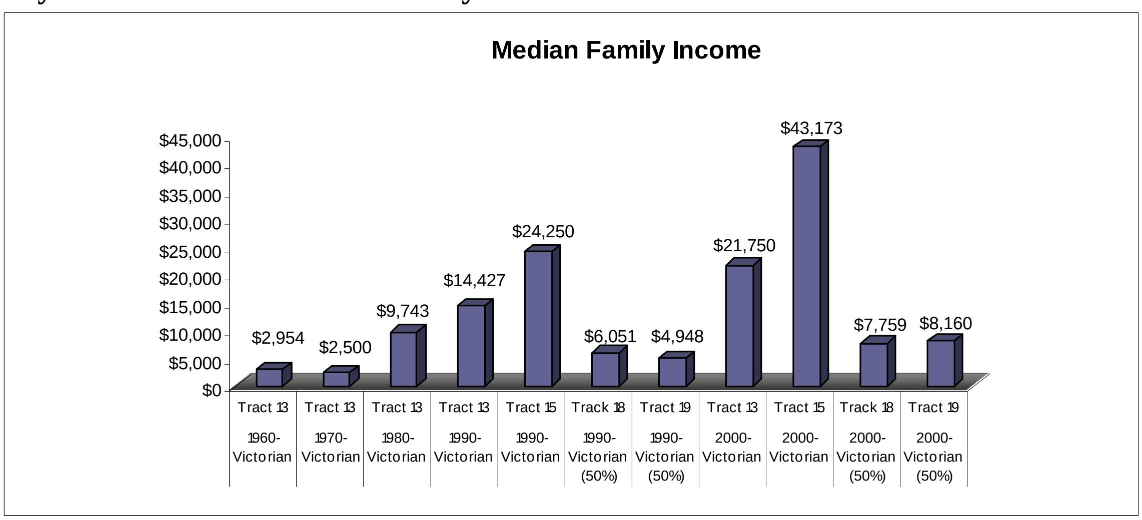
Year	Median Category	Frequency	Relative Frequency	Cumulative Relative Frequency
1960	4,000 – 4,999	194	0.17	0.58
1970	6,000 – 6,999	107	0.11	0.59
2000	15,000 – 19,999	170	0.12	0.56

Appendix II – Median Family Income Tables

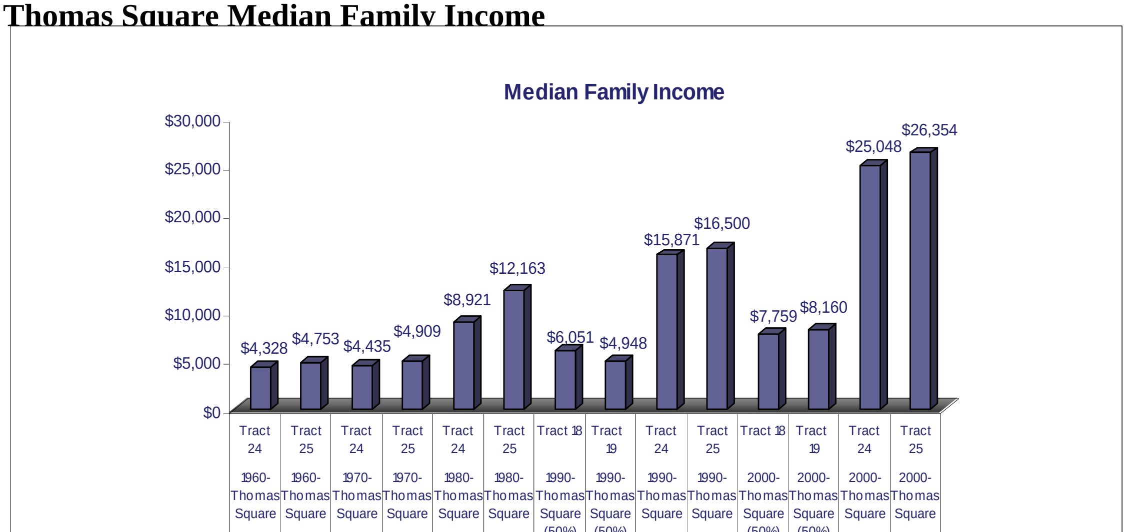
Victorian District Median Family Income



Cuyler Brownsville Median Family Income



Thomas Square Median Family Income



Appendix III - Chi-Square Tables

$$\chi^2 = n_t \left[\sum_{r=1}^{R} + \sum_{c=1}^{C} + \frac{n_{rc}^2}{n_r n_c} - 1 \right]$$

Critical Value = 3.84, Df = 1

Chi-Square Test of Median
Victorian Historic District House Value 1960 v. 1990

	1960	**1990**	**Total**
Above Median	13	47	60
Below Median	4	55	59
Total	17	102	119

Chi-square = 5.38

Chi-Square Test of Median
Thomas Square House Value 1960 v. 1990[a]

	1960	**1970**	**Total**
Above Median	86	72	158
Below Median	23	63	86
Total	109	135	244

Chi-square = 17.27

Chi-Square Test of Median
Thomas Square House Value 1980 v. 1990

	1980	1990	Total
Above Median	82	48	130
Below Median	72	89	161
Total	154	137	291

Chi-square = 9.73

Chi-Square Test of Median
Thomas Square House Value 1990 v. 2000

	1990	2000	Total
Above Median	48	151	199
Below Median	89	116	205
Total	137	267	404

Chi-square = 16.77

Chi-Square Test of Median
Victorian Historic District Gross Rent 1960 v. 1990[a]

	1960	1990	Total
Above Median	189	404	593
Below Median	172	599	771
Total	361	1003	1364

[a] Data was not available for Years 1970 and 1980

Chi-square = 15.75

Chi-Square Test of Median
Victorian Historic District Gross Rent 1990 v. 2000

	1990	2000	Total
Above Median	404	631	1035
Below Median	599	589	1188
Total	1003	1220	2223

Chi-square = 28.96

Chi-Square Test of Median
Cuyler Brownsville Gross Rent 1990 v. 2000[a]

	1990	2000	Total
Above Median	128	206	288
Below Median	206	141	347
Total	334	301	635

[a] Data was not available for Years 1970 and 1980

Chi-square = 14.05

Chi-Square Test of Median
Thomas Square Gross Rent 1990 v. 2000[a]

	1990	2000	Total
Above Median	301	528	829
Below Median	504	401	904
Total	805	928	1733

[a] Data was not available for Years 1970 and 1980

Chi-square = 65.72

Chi-Square Test of Median
Victorian Historic District Family Income 1960 v. 1970

	1960	1970	Total
Above Median	301	520	821
Below Median	183	460	643
Total	484	980	1464

[a] Data was not available for Years 1980 and 1990

Chi-square = 10.96

Chi-Square Test of Median
Victorian Historic District Family Income 1970 v. 2000[a]

	1970	2000	Total
Above Median	520	460	980
Below Median	673	735	1408
Total	1193	1195	2388

[a] Data was not available for Years 1980 and 1990

Chi-square = 6.40

Chi-Square Test of Median
Cuyler Brownsville Family Income 1970 v. 2000[a]

	1970	2000	Total
Above Median	550	397	947
Below Median	679	356	1035
Total	1229	753	1982

[a] Data was not available for Years 1980 and 1990

Chi-square = 11.89

Appendix IV – Definitions and Terminology

Definitions and Terminology

The Secretary of the Interior defines *rehabilitation* as “the process of returning a property to a state of utility through repair or alteration which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values” (U.S. Department of the Interior, 2000)

SLRP conducted moderate and substantial exterior rehabilitation where existing, salvageable materials and details were repaired and unusable elements were replaced with new pieces matching in size, texture and profile. SLRP also updated the interiors of its 300 units with new heating/cooling systems, smoke detectors, and kitchen and bathroom fixtures. The term *renovation* is often used to describe the installation of updated infrastructure, such as plumbing and of newer features such as sheetrock walls (as opposed to traditional plaster) on the interior.

A *historic* property is a building, district and other resources designated on national, state, and/or local government registers. A property must have historic (meaning at least 50 years old), architectural, social, archaelogical, and/or other qualities to be placed on such register (Listokin, et al, 1998). *Historic preservation* can be broadly defined as any activity that protects, repairs and reuses a building or site significant to the history of a community, state or the nation. The National Trust for Historic Preservation terms it as “the ultimate recycling” where individuals, communities or governments “hang on to something -- an older building or neighborhood or a piece of landscape, for instance -- because it's important to us as individuals and/or as a nation” (National Trust website, 2005). For this study, we will focus on designated properties that contribute to a neighborhood or district listed on or eligible for a national, state or local historic register.

The National Register of Historic place was created under National historic Preservation Act of 1966. The Savannah Victorian historic district was listed on the National Register in 1974. Two years prior, SLRP founder Lee Adler and other members of local preservation organization sponsored the architectural survey of the Victorian District that lead to the designation (Adler, et al, 1983). This designation qualified any appropriate rehabilitation for the historic rehabilitation tax credit program and helped attract investors to the area. In 1980, the

Georgia (state) Historic Preservation Act authorized city governments to designate local historic districts and to create local preservation ordinances to protect and promote these areas. The Savannah Victorian and the downtown Landmark districts were dubbed local historic districts by 1981.

Lastly, HUD offers the generally accepted definition of housing *affordability* as paying no more than 30 percent of its annual income on housing (HUD's website, 2005). Also, HUD grants eligibility for it affordable housing programs to households earning at or below 80percent of area median income. While this study accepts the HUD *affordable housing* as that housing that is targeted to markets earning at or below 80percent of area median income, the focus is on the low and very low income markets earning at or below 60percent of area median. Also, affordability included the criteria that rents do not exceed 30 percent of household income (i.e., 30 percent of the elected 60 or 80 percent of area median income).

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