A Housing Reinvestment Strategy for Durham, North Carolina

Providing decent housing for our nation's urban dwellers remains one of the greatest problems our cities face. After decades of innumerable programs aimed at improving housing conditions, the problems not only persist, but have grown worse. With our cities increasingly occupied by the poor, the aged, and others with little mobility or living choice, the provision of decent housing is no longer viewed merely as a challenge to our ingenuity and humanity, but more as a complex problem integrally related to the ultimate survival of cities themselves.

During the last decade, in particular, we have witnessed the loss of hundreds of thousands of structurally sound housing units as city neighborhood after neighborhood has fallen prey to deterioration and housing market breakdown. This phenomenon has heightened significance since older housing can only be replaced at today's prohibitive building costs. Because of these economic constraints, older units will have to play a major role in filling the housing needs of our country. The necessity of maintaining and preserving this resource becomes critically important, and inextricably related to the future quality of life in urban America.

If cities are to remain decent places to live, an atmosphere must be created that is conducive to substantial amounts of reinvestment in older neighborhoods. As used here, reinvestment refers to provision of capital for housing rehabilitation programs in deteriorated neighborhoods, and the array of public services which must accompany any successful rehabilitation effort. The trend of planners to encourage such reinvestment has occurred largely in the context of broader strategies aimed at neighborhood preservation (HUD 1975).

According to Sternlieb, preservation is an all-inclusive term that refers predominantly to the rehabilitation of housing, but also includes demolition, reuse of space, some new construction, and a series of socio-economic strategies (Greendale and Knock 1976, p. 28). Neighborhood preservation strategies have enjoyed their greatest successes in the area of historic preservation. However, there is an important difference between historic preservation efforts and other types of preservation, in that historic preservation generates a middle- and upper-class demand for housing in the target neighborhood. The real battleground for saving our inner-city housing stock will probably not be these areas with historic significance, but the far more numerous neighborhoods where there is little demand for housing, no real incentives for investment, and where preservation will benefit only those people already living in the area.

The successes in the historic preservation field should not cause one to overlook the tremendous difficulties to be encountered in other types of preservation activity. Part of the problem is that local preservation programs directed at the most debilitated housing stock are often developed in reaction to federal funding requirements. In many respects, this results in an acceptance from on-high of the basic approach to housing problems, or at least predisposes programs to certain attitudes and assumptions. With a federal mind-set having already been prescribed, local planning efforts are at times lax in conducting independent and rigorous assessments of housing problems responsive to local market peculiarities. Specifically, planners must spend more time understanding: 1) the nature and causes of housing problems in particular target neighborhoods; 2) the types of coordinative efforts needed to conduct a housing reinvestment program; and 3) the importance of realistic expectations in a reinvestment strategy.

This article attempts to develop a strategy for reinvestment that addresses the most serious of our housing problems: the preservation and improvement of dilapidated housing in neighborhoods with little market attractiveness. By definition, the goals and objectives of such a strategy must be far more modest than with a historic preservation program. To a large degree, housing in these blighted areas will never be extremely desirable. At best, we can hope that market conditions can be stabilized in such a way as to provide safe and decent housing for community residents. The primary goal of a reinvestment strategy should be to create a mechanism that will: 1) allow homeowners to bring their properties up to code standards while maintaining homeownership; and 2) encourage investor-owners to eliminate substandard housing conditions without substantially raising rents.

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Emphasis is placed on housing reinvestment because "neighborhood revitalization depends upon the existence of a viable housing market" (Albrandt and Brophy 1975, p. 26). Although certain aspects of a broader neighborhood preservation strategy are not discussed, this does not mean that they are not equally as important. Housing rehabilitation programs can ultimately be successful only if accompanied by city efforts to enhance positive perception of neighborhoods. This can be achieved through visible capital improvements, upgrading service delivery, social and economic development, and actively involving neighborhood residents in the planning process.

Under these constraints, what types of programs, policies, and regulations can be initiated at the local level to improve housing in these deteriorated areas? This article offers one solution through the examination of housing problems in Durham, North Carolina. Housing market conditions are discussed, followed by a brief description of the city's efforts in the housing reinvestment area, and a proposed strategy for stimulating such reinvestment. Because Durham is fairly typical of a medium-sized southern city, this article should be of particular interest to other planners working with housing problems in the South. Although housing problems are national in scope, the unique local characteristics of the Durham housing market (and presumably of markets in other southern cities) cause the reinvestment issue to be shaped much differently than has traditionally been the case in larger northern cities. To a certain degree, this is an indictment of federal programs whose perception and approach to housing problems is often oriented to these larger metropolitan housing markets. In any case, the unique conditions in Durham afford the city an opportunity to be more flexible in proposing reinvestment strategies than is possible elsewhere.

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Background on the Durham Housing Market

Like many southern cities, Durham has serious housing problems. Lester Salamon, in a recently completed study of Durham's housing market, found that 20% of the stock is in substandard condition (Salamon 1976, p. vi). The supply of vacant housing units is limited, with the problem being particularly acute in the renter-occupied stock. While 54% of all of the city's housing units are renter-occupied, 75% of all of the substandard or deteriorating stock is renter-occupied.

Housing found in Durham's Community Development Area

Photo by Pat Jenny

Salamon's study reveals, however, that the characteristics of Durham's substandard housing market are far from typical. Much of the substandard housing in the city is relatively new, with 40% having been built since 1939 (Salamon 1976, p. 2). Unlike larger northern cities where tenement structures are common, 96% of all of Durham's substandard units are either single-family residences or duplexes (Salamon 1976, p. 5). It is generally recognized that these types of units can be rehabilitated with greater flexibility than can larger structures (Stegman and Sumka 1975, p. 25). The Durham Housing Assistance Plan of 1975 estimated that 93% of all substandard units were capable of being rehabilitated. However, this figure probably overstates the situation. Salamon found that "a substantial share of Durham's housing stock was built to below-code standards to begin with, raising serious questions about the possibilities for rehabilitation and upgrading"(Salamon 1976, p. 2).

Durham's substandard units are also dispersed over a relatively wide geographic area. The ten "substandard housing areas" identified by the City Planning Department as having the largest concentrations of deteriorated units contain only 40% of all of the city's substandard houses (Salamon 1976, p. 6). Within these substandard housing areas exists a healthy mixture of both standard and substandard housing. This contrasts sharply with larger cities where there are often vast homogeneous sections of substandard units. Durham might be able to take advantage of this phenomenon by promoting housing rehabilitation in neighborhoods containing significant amounts of standard units. This might give neighborhood improvement efforts a greater chance of success, since they would be conducted in areas where elements of a more stable housing market are already present.

From the investor side, the Durham substandard housing market is economically more viable than in many larger cities. However, present indications of market weakness have serious implications for the future. Ownership of Durham's substandard rental housing market is stratified, with a small group of landlords in control of 50-60% of all of the units (Salamon 1976, p. 9). Although the worst housing tends to be owned by these larger concerns, 62% of all landlords own five or fewer substandard rental units (Salamon 1976, p. 8).

The typical owner of rental housing in Durham is elderly, white, a long-time Durham resident, and an amateur landlord having a non-real estate-related occupation, who has entered the market in the last two decades largely for investment purposes (Salamon 1976, pp.11-13). Absentee ownership, a common problem in larger cities where owners either cannot be found or reside in a different state, is not a major concern in Durham.

Unfortunately, investment opportunities in the Durham substandard housing market are lacking. Investor-owned properties usually have positive cash flows, with investor-owners typically being able to return about 7½% on invested capital. In Durham's substandard housing market, this figure drops to a 4½% return to present value (Salamon 1976, p. 32) (see Figure 1), which is as much as three or four times less the return many new landlords would expect in a successful real estate endeavor. It is understandable why investor-owners are unwilling to invest capital in these substandard properties when they can get as large a return on their money by placing it in the bank without any risk.

As might be expected, incomes of tenants in substandard units are low. As Ahlbrandt and Brophy noted in their book on neighborhood revitalization:

> If incomes are low, landlords, in particular, may not have an incentive for re-investment because their existing clientele may not be able to pay additional rent to cover the cost of the investment. Landlords will only be motivated to upgrade their housing if they can reasonably expect to rent to tenants at higher levels and thereby recapture their investment (1975, pp. 25-26).

Figure 1
Cash Flow Statements for Substandard Rental Housing Units in Durham

Item	1974		1973	
Receipts		$695.00		$676.17
Management Fee	$ 60.25		$ 60.00	
Property Tax	85.25		85.87	
Insurance	27.75		27.75	
Misc.—Exterminator, etc.	30.00		18.00	
Sub-total, Fixed Costs	203.25		191.12	
Repairs	125.50		110.50	
Sub-total Expenses		-328.75		-301.62
Profit (Loss)		366.25		374.55
Profit Rate		52.7%		55.4%
Return on Invested Capital ($5,000)	7.3%			7.5%
Return on Present Value ($8,500)	4.3%			4.4%
Return on Assessed Value ($5,130)	7.1%			7.3%

Because of these unfavorable market conditions, investor-owners often face a dilemma. They may allow their properties to deteriorate slowly while not raising rents, or invest heavily in a rehabilitation effort while trying to raise rents substantially to repay the rehabilitation loan. A "sit-tight" attitude with respect to these properties is understandable given tenant bitterness toward rent increases and investor-owner pessimism concerning their ability to repay a loan.

The positive cash flows in the substandard segment of Durham's market are due in part to the low property taxes in the city (about 12.3% of gross receipts, as compared to tax rates of 15-21% in larger cities) (Salamon 1976, p. 26). Low tenant turnover (average length of tenancy being close to six years) and low vandalism rates also contribute to the positive returns, as well as to greater stability in the market (Salamon 1976, p. 23).

Most significantly, substandard properties in Durham have continued to appreciate in value (although at a rate of only 3-4% a year), with resale values around eight times the rent rolls (Salamon 1976, p. 32). This has very positive implications for a housing rehabilitation strategy, and contrasts sharply with segments of larger inner-city markets. In Baltimore, substandard properties can be purchased for as little as twice the rent roll (Stegman and Sumka 1975, p. 211), and even massive rehabilitation efforts have resulted in little or no property value appreciation. Insurance and mortgage money are also available to investor-owners in Durham. According to Stegman and Sumka, the availability of mortgage money is generally a sensitive barometer to the future of the housing market (1975, p.187).

Unfortunately, current interest rates are such that new purchasers of substandard units would have great difficulty meeting financing charges with the net rental incomes from their properties. Ownership of many of these properties will be changing hands ..ı the not too distant future, with 40% of the investor-owners over sixty-five years of age and another 46% between forty and sixty years of age (Salamon 1976, p. 12).

It can be presumed that there will be major changes in this sector of the housing market, either in terms of falling resale values, increased rents, or decapitalizing or "milking" properties by securing high profit yields through neglecting needed maintenance.

Durham is currently involved in trying to rehabilitate substandard housing in target neighborhoods through its Community Development (CD) Block Grant program. Out of a total CD budget of $2.3 million in 1975-76, the city designated over

$800,000 for housing rehabilitation work (Goldberg 1977). Unfortunately, due to administrative difficulties, only a small amount of the allocated funds were actually spent (Herman and Ellis 1977). Future efforts aimed at rehabilitating Durham's substandard housing stock should continue to focus on community development target neighborhoods. These areas, containing the largest concentrations of low-income residents and substandard housing units, are eligible to receive the vital federal assistance so important in financing neighborhood improvement efforts.

A Housing Reinvestment Strategy for the Durham Community Development Area

Improving the condition of housing in the Durham CD area will involve the implementation of a coordinated series of policies and actions. The director of a housing reinvestment program must continually insure the maximum participation of community residents, local officials, lending institution representatives, and planners in every phase of the reinvestment project. Neighborhoods die largely as a result of being neglected. They are revived only when a renewed spirit and collective sense of commitment to the neighborhood are generated among the major actors affecting the community's viability.

The major problem in a reinvestment effort, after financing arrangements have been made, is getting the first few people to undertake the actual housing rehabilitation work. Although the majority of home and investor-owners might agree in principle to undertake improvements, very few may want to risk investing large amounts of capital in a deteriorated neighborhood unless their investments are secured by the firm assurance that the risks are going to be shared by everyone in the community. Planners must direct this "wait and see" attitude toward reinvestment in a manner that will get everyone to jump in at the same time. A housing reinvestment program can be unsuccessful even if all of the residents in a given community participate, but the chances for a successful neighborhood improvement effort should increase with the number of residents actively involving themselves in a program.

The use of a housing code enforcement program, where it is made clear to owners that all properties in a given area will have to be brought up to certain minimum standards, has been the traditional way of achieving this purpose. Unfortunately many of the housing codes in North Carolina are relatively weak, making it difficult for present CD efforts to make substantial impacts on substandard housing conditions. A 1974 study of Durham's housing code concluded that it "is relatively ineffective in meeting the overall problem of substandard housing" (LBC & W Associates 1974, p. 25).

Currently limited CD mechanisms must be reinforced by a legal instrument with the power to make substantial improvement in deteriorated neighborhoods. Such power can be realistically derived through the resurrection of state urban renewal legislation (N.C. Gen. Stat. 160-500) if utilized in a manner sensitive to citizen and community needs of the 1970's. This power would include the right for the director of the renewal effort to set whatever housing code standard is necessary to improve the quality of housing in the target neighborhood in a meaningful way.

The development of a strong housing code and code enforcement program is an important first step in a rehabilitation effort. It provides the standards by which municipalities can require that housing be maintained at adequate levels of health and safety (Ahlbrandt and Brophy 1975, p. 38). Through urban renewal powers, codes can also mandate that housing units be rehabilitated and not merely forestalled from further deterioration.

Not only must a new code be strong on paper, but it must also be strong in its actual application. Enforcement must be conducted in a quick, comprehensive, and consistent manner. An effective code strategy should also include a citizen education component. It is essential that citizens understand and support the code program as a mechanism to improve their neighborhoods.

As William Grigsby has pointed out, a code enforcement program can only be effective if an environment is created that is conducive to housing maintenance and investment (Ahlbrandt and Brophy 1975, p. 42). This serves to highlight the need for programs that create financial incentives for the rehabilitation of deteriorated housing.

"The major problem . . . is getting the first few people to undertake rehabilitation work."

Rehabilitation Programs

A property is rehabilitated only when the owner decides to rehabilitate it and is able to finance the work (Gressel 1976). A homeowner's or investor-owner's willingness to invest in a rehabilitation effort depends on his perception of whether the investment makes rational economic sense and the confidence that his effort, combined with similar investments, will successfully preserve and upgrade the neighborhood. The realization of an effective neighborhood revitalization effort is most dependent on the provision of low-cost funds for homeowners and investor-owners alike to finance the actual rehabilitation work.

The section 312 federal rehabilitation loan program, which provides a 3% loan to low-income property owners, has been used in many southern cities to finance such housing reinvestment efforts. The national commitment to this program, however, has been inconsistent (American Institute of Planners 1976, p. 15). Funding has been erratic, preventing cities from maintaining the production schedules essential to volume rehabilitation. Since neighborhood revitalization is dependent on an intense and uninterrupted effort in housing rehabilitation over a period of several years, Durham must seek an alternate source of funding.

The city could establish a viable alternative to the federally mandated rehabilitation loan programs through the cooperation of its Housing Authority, CD office, and local lending institutions. It is only then that a stop could be put to "on-again, off-again" flow of federal dollars.

Such a locally conceived housing reinvestment program might work in the following way. Using local lending institutions as the primary source of rehabilitation loan funds, the Housing Authority would borrow money to implement the program. If the Housing Authority was properly classified as a tax-exempt governmental entity, banks could lend it money at a reduced interest rate (around 50-60% of the normal rate) because the income from the loan would be tax-exempt (Furr 1977). The borrowed money would then be lent to property owners with the interest savings passed on to the borrowers.The obligation of loan recipients would be further reduced by an interest subsidy provided with CD funds. Loans would be tailored to meet the specific rehabilitation needs of the property, as well as the individual needs of the property owner. Credit standards would have to be low enough to allow the majority of CD property owners to participate in the program. Resulting mortgages and a Loan Guarantee Fund supplied from CD money would provide the basic security for the loan.

Four categories of loan recipients would be included in such a rehabilitation program. Homeowners of substandard units would be divided into extremely low- and low-income groups. Similarly, investor-owners would be classified into categories of low- and non-low-income owners. Following is an explanation of how the program would affect each category of loan recipients.

There exists a mixture of standard and poor quality housing.

Photo by Blair Pollock

Figure 2
Deferred Payment Loan Program Supported by CD Funds Versus Private Funds

Assumptions: CD funds are used to make the loan; the amount of the loan is $5,000 with the loan being repaid after 15 years.

$5,000	*amount of the loan*
$0	interest paid by homeowner
$0	amount recaptured under grant program
$5,000	*amount recaptured*

Assumptions: Bank funds are used to make the loan; CD funds are used to pay the interest. The loan is for $5,000 with the loan being repaid after 15 years; the interest rate charged on the loan is 5%, paid annually by the CD Office.

$5,000	amount of the loan
$250	one year's interest on the loan paid by the CD Office
$3,750	amount of interest paid by CD Office over 15 year period
$2,427.50	present value of receiving yearly payments of $250 for 15 years discounted at 6%

Extremely Low-Income Homeowners

Extremely low-income homeowners in Durham have little money to repay even a subsidized low-interest loan, with many being elderly and on fixed incomes. A reinvestment strategy aimed at upgrading the quality of housing must allow extremely low-income homeowners to perform needed repairs, but also insure that they do not incur any undue financial hardship. One way that a reinvestment program can be tailored to meet these needs involves the use of a deferred payment loan.

Employing such a deferred payment loan scheme, loans up to $5,000, to be used only to bring the property up to code standards, would be made available to the homeowner. ($5,000 is a suggested figure based on average rehabilitation costs in Durham in 1975. This figure might understate the current costs of reconstruction, due to increased building costs, and may need to be readjusted.) Recipients would make no monthly payments, but instead would repay the loan in a lump sum or "balloon payment" when they sold, vacated, or transferred the property.

Figure 3
The Use of the Deferred Payment Loan

Assumptions: Values in Figure 3 are approximations and not real estimations of actual cost. They are used to illustrate how the program might work.

Current value of property	$ 8,000
Amount of rehabilitation loan	$ 5,000
Post-rehabilitation Value *assumes that the property value does not increase by the amount of the rehabilitation loan	$11,000
Appreciation of rehabilitation property at 3% for 15 years	$ 6,137.63
Value of property 15 years after rehabilitation	$17,137.63
Payback of Loan	-$5,000
Cash Residual after loan repayment	$12,137.63

CD funds would be used directly to make these deferred payment loans, or instead used to leverage larger amounts of private capital which in turn would be made available for such loans. In the latter case, CD funds would be used to subsidize the interest payments due on the loans. Figure 2 explains the cost difference to Durham between using public and private funds in supporting a deferred payment loan program.

As can be seen from Figure 2, using CD funds to leverage private capital could substantially increase a program's size, since private instead of public funds would be used to make the actual loans. However, potential credit difficulties encountered with lending institutions might force the direct use of CD funds for these loans.

The idea behind the deferred payment loan program is for a homeowner to rehabilitate his property and enjoy the benefits of the work without incurring any immediate expense. The rehabilitation loan would be repaid at some future time when the homeowner sold his property. The deferred payment loan program tries to take advantage of appreciating real estate values in the substandard housing sector in Durham. If a successful reinvestment effort occurs in a community, real estate values might be expected to rise initially, although probably not enough to offset the principal of the rehabilitation loan. If properties continue to appreciate in value, the rehabilitation loans should be able to be repaid from the increase in value to the property in a few years' time. Figure 3 details how the deferred payment loan program might improve the position of the low-income homeowner.

As can be seen from Figure 3, it is assumed that the infusion of rehabilitation funds will allow properties to continue to appreciate at their current rate of 3-4% a year. This should have the effect of more than doubling the value of rehabilitated properties in a fifteen year period, and should assuage creditor and homeowner fears of the burden a deferred payment loan might impose.

Elderly homeowners would particularly be able to benefit from a deferred payment loan program. As noted earlier, deferred loans would not have to be repaid until the property is sold or transferred. For many elderly homeowners this means that their loans would probably come due upon the transfer of the properties at the time of their deaths. This would allow elderly homeowners to enjoy the present benefits of the rehabilitation work, and to let their estates bear the costs.

There are several advantages in using a deferred payment loan instead of an outright grant. Most importantly, it helps to insure that the owner does not convert the grant into a cash profit. As pointed out by Gressel (1976), "If the improvements financed with the grant increase the value of the property, and the owner turns around and sells the property, the grant will end up in his pocket." With a deferred payment loan, the amount of the loan is recaptured at the time of sale or transfer. This points to the second advantage of using a deferred payment loan: that the loan, unlike a grant, is eventually repaid and can be used again for other neighborhood improvement efforts. Additionally, loan programs in general seem to arouse less political opposition than programs employing outright grants. With the full support of local government so crucial to the success of a revitalization effort, this becomes an important tactical consideration. Finally, participation in a loan program, by definition, gives a homeowner a substantial stake in the outcome of the rehabilitation effort. This type of strong commitment, so vital to successful reinvestment, might not be generated to the same degree in an outright grant program.

> "Loans would be tailored to meet the specific rehabilitation needs of the property as well as the individual needs of the property owner."

The use of a deferred payment loan scheme does have its disadvantages. Most importantly, loans would probably have a fifteen year maximum term if private funds were used to make the rehabilitation loans. Although our society is increasingly more mobile, it is possible that a situation might arise where contented homeowners would be forced to sell their properties to repay a loan whose term has expired. Even if this group is relatively small, such an eventuality demands that some method of future refinancing be explored to allow satisfied homeowners to maintain home-ownership. The maximum loan term issue, however, may only present a problem if private funds are used to make rehabilitation loans. It is entirely conceivable for there to be no maximum loan provision at all if CD funds alone are used to make the rehabilitation loans.

The second criticism of the loan scheme concerns the efficacy of rehabilitation loan programs in general. Programs fail as well as succeed. With a poorly conceived deferred payment loan program, property owners might be left with large loans to repay in neighborhoods which have long since gone under. This possibility demands that planners carefully assess market conditions and realities, and cautiously select target communities. In some deteriorated neighborhoods, it might make more sense to do nothing than to cause a large indebtedness among community residents while not substantially changing neighborhood conditions.

Low-Income Homeowners

Other low-income homeowners in the CD area would be eligible for the more traditional low-interest installment type loans made available by local lending institutions through the Housing Authority. CD funds would be used to subsidize interest rates down to 3%. The terms of these loans would vary with structure type and need, with a maximum term of fifteen years. The resulting mortgages would provide the basic security for the loan. Additionally, a Loan Guarantee Fund would be established with CD money to further secure the loans and to guarantee high risk loans made by the lending institutions.

Figure 4
The Costs of Supporting a Deferred Payment Loan

Assumptions - Investor-owners obtains $5,000 rehabilitation loan

Current monthly rent on property	$57.00
Deferred Payment Loan	
Amount needed to be deposited each month to grow to $5,000 in 15 years; assuming 6% monthly compounding	$17.19
Approximate rent increase for month to have enough money at the end of the 15 years to pay back the loan	$18.00
Low-Interest Amortized Loan	
Monthly mortgage payment on 5%, 15 year loan	$39.54
Monthly rent increase needed to support a 5%, 15 yr. loan	$40.00
Market Rate Loan	
Monthly mortgage payment of a 9%, 15 year loan	$86.21
Monthly rent increase needed to support a 9%, 15 yr. loan	$87.00

Abandonment can be discouraged through reinvestment assistance.
Photo by Blair Pollock

Low-Income Investor-Owners

It is an accepted practice for the increased costs of maintaining real estate to be passed on in the form of higher rents. Providing rehabilitation assistance to investor-owners of substandard units would indirectly benefit low- and moderate-income tenants by reducing the rent increases they would face. The use of a deferred payment loan program would be most effective in helping to accomplish this end. Once again, either public or private funds could be used to make loans of up to $5,000 to bring properties up to code standards.

Investor-owners would be allowed to increase their rents under the program. The granting of the loan would, however, be conditioned on the rent increases (due to the rehabilitation loan) being limited to that amount which would grow to the principal of the rehabilitation loan at the end of the loan term, assuming that the additional rent was deposited in an interest-bearing account at 6%. This would give the investor-owner present enjoyment of the rehabilitation work, and provide enough money to repay the loan with the increased rents received over the life of the loan term. More importantly, as Figure 4 shows, the rent increase needed to support a deferred payment loan is significantly less than the rent increase needed to support either a low-interest or market rate amortized loan. This is because the loans made to investor-owners are essentially interest free, with the city subsidizing interest charges.

The idea behind an investor-owner deferred payment loan program is to try to create an attractive rehabilitation program for investors, while keeping rent increases as low as possible for tenants. Since the cost of rehabilitating a property is the measure used to determine subsequent increases in rent, a successful reinvestment program must keep such costs low. The deferred payment loan program works well in accomplishing this by providing interest-free loans to investor-owners and allowing

Figure 5
Comparisons of Deferred Payment Loan and Amortized Loan Programs for Investor-Owners for Term of 15 Years

Rate of Interest	Principal	Monthly Payment Needed to Support Loan	Total Interest Over 15 Yrs.
5% Def.	$8,500.00	$29.23*	$6,375.00
5% Def.	7,000.00	24.07*	5,250.00
5% Def.	5,000.00	17.19*	3,750.00
5% Def.	3,000.00	10.31*	2,250.00
5% Def.	1,000.00	3.43*	750.00
5%	8,500.00	67.21	3,597.80
5%	7,000.00	55.35	2,963.00
5%	5,000.00	39.54	2,117.20
5%	3,000.00	23.72	1,269.60
5%	1,000.00	7.90	422.00
9%	8,500.00	86.21	7,017.80
9%	7,000.00	71.00	5,780.00
9%	5,000.00	50.71	4,127.80
9%	3,000.00	30.43	2,477.40
9%	1,000.00	10.14	825.20

*Monthly payment which would grow to the value of the rehabilitation loan in 15 Years assuming 6% Interest Rate, Sinking fund factor—.003439.

repayment up to fifteen years later. Rent increases are regulated to reflect this inexpensive means of financing rehabilitation work.

The deferred payment loan program also succeeds in encouraging investor-owner participation. As noted earlier, a substantial portion of the substandard stock is owned by elderly landlords on fixed incomes (Salamon 1977). Many of these landlords would be interested in having more liquid assets, as their age and economic circumstances make it hard to keep up with the cost of living. Selling their properties, however, would be somewhat difficult in the unfavorable investor climate. The deferred payment loan program, though, can provide investor-owners with a way of increasing net cash flow. This is because they are given loans which they repay in the future, while being able to increase present rents as soon as the rehabilitation work is complete. This gives investor-owners the option of either enjoying the present benefits of the increased rents or saving that money to repay the loan in fifteen years. As Figure 3 indicates, a successful reinvestment effort can greatly benefit the investor-owner participating in a deferred payment loan program.

Other Investor-Owners

The deferred payment loan program offers substantial benefits for both the tenant and investor-owner. However, because the program does provide such substantial benefits to the investor-owner (a person not often perceived as warranting aid), and because of budgetary constraints, it makes sense initially to limit the scope of a deferred payment loan program to low-income investor-owners.

Other investor-owners would be given financial assistance to rehabilitate their properties, but would not receive as much a subsidy as low-income investor-owners. A low-interest, amortized loan program, where the investor-owner received up to $5,000 to bring property up to code standards, would be one good way to provide such assistance. With the cooperation of the Housing Authority, the CD office, and local lending institutions, loans could be made available to investor-owners at approximately the same interest rate at which the Housing Authority could borrow the funds. This would allow investor-owners to rehabilitate their properties without incurring as large a rehabilitation debt as with a simple-interest market rate loan. For example, the monthly mortgage payment on a $5,000, fifteen year loan drops from $50.71 at a 9% interest rate to $39.54 at a 5% interest rate. Provisions could be incorporated into the program to insure that such savings were passed on to the tenants in the form of lower rents(see Figure 5).

The Section Eight Existing Housing Program

Under almost any rehabilitation loan scheme, investor-owners will be forced to increase rents to offset the financing costs of a rehabilitation loan. However, as noted previously, the rent increase expected under a deferred payment loan scheme should be much less than expected under a more traditional loan program.

Nonetheless, methods to decrease tenant hardships suffered from paying increased rents must be actively sought if a rehabilitation program is to be truly successful. This can be accomplished to a certain degree by tying together the Section 8 Existing Program promulgated under the Housing and Community Development Act of 1974 with neighborhood revitalization programs.

Under the Section 8 program, eligible low-income families can select a standard rental unit and pay between 15% and 25% of their income toward the rent. Although the housing unit must be within the Fair Market levels set for the area, the federal government will subsidize the difference between 25% of the renter's income and the rent on the Section 8 unit (Mendelson and Quinn 1976, p. 221).

Cities like Durham might work out informal arrangements to try to make Section 8 existing housing payments available to tenants living in rehabilitated rental properties to pay for the increase in rent attributable to rehabilitation work.

The major problem with the Section 8 Existing Program is that the need for housing subsidy payments far outstrips the level of federal funding provided (Meacher 1977). Durham and other medium-sized cities in North Carolina might therefore try to establish priorities for the distribution of Section 8 allotted funds to provide financial assistance to those tenants living in neighborhoods undergoing a rehabilitation effort who will be facing large increases in rent. Additionally, if tenants can be encouraged to stay in rehabilitated units within the neighborhood undergoing a revitalization effort, the Section 8 program might be a further incentive for investor-owners to undertake rehabilitation work, since they will be more assured of having tenants who can pay increased rents.

Critical Maintenance Program

One of the greatest challenges of a successful neighborhood revitalization effort is not in the actual rehabilitation phase itself, but in maintaining an area once it has been rehabilitated. Many homeowners are forced to postpone critical maintenance due to the continuing expense represented by their loans. This strategy addresses the maintenance problem through the use of a critical maintenance project.

The proposed project in Durham, "Project Perseverance," would have two elements, based on a small allocation of CD funds made available to each target neighborhood. One element would be a "tool lending library" at neighborhood CD offices, where residents would be able to check out tools to do household improvements. Secondly, homeowners in need of more complicated repairs would be able to apply to the CD office for a partial critical maintenance grant. A housing advisor in each target area would coordinate a team of workers made up of CETA-funded local residents, neighborhood and other volunteers, and trade-school students to perform critical maintenance functions. Homeowners would pay a percentage of the costs of the repair work (depending on their income levels) in order to encourage only normal wear and tear on the property. This program is important because it would provide an opportunity for neighborhood residents to get involved with, and be paid for improving their communities. Project Perseverance would be made available to homeowners only, as investor-owners can include maintenance costs in the rents they charge.

Conclusion

This article has attempted to develop a housing reinvestment strategy for improving the most deteriorated housing conditions in the city of Durham. Hopefully, its basic principles can be modified and applied to other medium-sized southern cities. This strategy includes strict code enforcement, the provision of a variety of rehabilitation loans to both homeowners and investor-owners with emphasis on the deferred payment loan, the use of Section 8 housing assistance payments, and the implementation of a critical maintenance program. The article attributed great importance to the need for greater reliance to be placed on local resources in addressing housing problems. It is only when the different local actors affecting a community's viability are reacquainted and begin to interact that normal market mechanisms can function and neighborhood conditions stabilize.

Although cities like Durham have major housing problems, market conditions are significantly better than in larger cities. Chances for making significant impacts on substandard housing conditions should therefore be greater in Durham and similarly situated cities. Such cities, however, must sense the immediacy of their housing problems. Intervention is needed while cities are still in an advantageous position to make positive impacts on substandard housing. Unless financial and other incentives are used to improve the quality of substandard housing conditions, and to return them to economical viability, these properties may lapse into even greater deterioration, resulting in adverse community effects.

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