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Combining Historic Preservation and Income Class Integration: A Case Study of the Butchers Hill Neighborhood of Baltimore

James R. Cohen
University of Maryland

Abstract

For the past several decades in the United States, a tension has existed between the goals of historic preservation, the provision of affordable housing, and the creation of mixed-income neighborhoods. Historic restoration for residential uses has often been associated with gentrification and the displacement of low-income residents. This article examines the public and private sector support system for combining historic preservation with the creation of affordable and mixed-income housing and neighborhoods and analyzes the strategies and experiences of the Baltimore neighborhood of Butchers Hill in taking this approach to community revitalization.

Using historic preservation as a catalyst for community revitalization requires a comprehensive approach to prevent displacement of low-income residents. In Butchers Hill, the mixed-income community that was created was an outgrowth of conflict between two community-based organizations. The case eludes simple typologies of gentrification and indicates the need for additional study of the dynamics and benefits of mixed-income neighborhoods.

Keywords: Affordability; Gentrification; Neighborhood

Introduction

Historic preservation activities in U.S. urban areas often result in the permanent displacement of low-income residents living in or near restored buildings. In addition, national historic preservation organizations traditionally have avoided initiating restoration activities in areas inhabited by racial minorities. The challenges for the historic preservation/restoration movement in the United States are, therefore, to combine structural restoration with maintenance of low-income residents and to include minority neighborhoods in preservation projects.

Due to a variety of factors, the production of low-income housing in the United States has contributed to the creation of neighborhoods with few middle- and upper-income residents. Numerous authors in

recent years, most notably Wilson (1987), have discussed the negative social and economic consequences of isolation of the poor. These consequences range from the lack of positive role models, to underfunded and inferior schools and public services, and to loss of retail establishments and decent-paying jobs. Many consider the return of middle- and higher-income people a prerequisite for revitalizing urban areas. A number of strategies have been suggested for mitigating the concentration of the poor,[1] with one being the creation of mixed-income housing developments and the maintenance of mixed-income neighborhoods. Because earlier periods of U.S. history are characterized by spatial economic integration, the re-creation of mixed-income neighborhoods constitutes a form of historic restoration.[2]

This article uses the Baltimore neighborhood of Butchers Hill as a case study to examine attempts to address each of the challenges to urban restoration efforts noted earlier. Located southeast of downtown, Butchers Hill was planned in the 1820s by Thomas Poppleton (Olson 1980, 50), who designed the community's streets in a manner to integrate income classes.[3] However, typical of U.S. cities during the past 40 years, Baltimore's inner-city neighborhoods declined as job opportunities dwindled and population and economic growth occurred in the outlying suburbs. In Butchers Hill, the large homes were divided into apartments and rooming houses, and housing conditions in the community deteriorated.[4] However, as Baltimore's Inner Harbor redevelopment efforts expanded in the 1970s and 1980s, Butchers Hill became a prime site for gentrification be-

[1] For example, Downs (1994) outlined four different categories of strategies, including (1) area redevelopment, (2) personal development, (3) household mobility, and (4) worker mobility.

[2] Jackson (1985, 16) asserts that "American cities were not rigidly segregated by class before 1815, and . . . the poor lived hard by the more opulent dwellings of the wealthy." Jackson notes that the introduction of new transportation technologies (including the steam ferry, omnibus, commuter railroad, horse car, elevated railroad, and cable car) between 1815 and 1875 led to income segregation. Warner (1972, 107) asserts that after 1870 Chicago neighborhoods "ceased to be a jumble of rich and poor, immigrant and native, black and white, as they were in the former era of the big city." It should be noted that such "New Urbanist" design proponents as Katz (1994), Calthorpe (1993), and Langdon (1995) promote mixed-income and mixed-use developments in "neo-traditional" plans calculated to avoid the social, fiscal, and environmental problems associated with post–World War II sprawl development patterns.

[3] The east-west streets were wider and had large lots; the north-south streets were narrower, with smaller lots; and alleyways (which paralleled the north-south streets) offered the smallest lots.

[4] Such partitioning of large homes into several smaller units has occurred in all cities. For example, the same process in Philadelphia is described by Anderson (1990) and in Chicago by Lemann (1991).

cause of its convenient downtown location. In response to gentrification, Jubilee Baltimore, a nonprofit housing organization in Butchers Hill, has employed creative strategies to maintain a mix of income classes in the community, in order to restore not only the architecture of earlier periods but the economic integration embodied in Poppleton's original Baltimore plan.

This article begins by briefly providing a national context for the Butchers Hill story, in terms of the need for affordable housing, trends in federally assisted affordable housing provision, and trends in economic segregation in U.S. cities. Following this review, the article analyzes the strategies that evolved in Butchers Hill to combine historic building preservation and the creation of a mixed-income community. The article concludes with some implications from the study.

Trends in affordable housing need, the production of federally assisted affordable housing, and income segregation

Defining and measuring the affordable housing gap

In administering its housing assistance programs, the U.S. Department of Housing and Urban Development (HUD) uses the standard that a household should pay no more than 30 percent of its income in rent. Accordingly, tenants in public housing or receiving Section 8 vouchers are assisted so that their rent payments do not exceed 30 percent of their household income. However, a majority of low-income households do not receive such HUD assistance. A 1991 HUD report found that 11.6 million (or 58 percent) of the 20 million low-income renter households paid more than 30 percent of their incomes for rent in 1989 (Wallace 1995).

The Joint Center for Housing Studies of Harvard University (1993) used data from the 1991 American Housing Survey to determine the number of low-income renter households that received no federal assistance and had an "affordable housing gap," which the Joint Center defined as living in inadequate housing and/or paying at least 50 percent of household income for rent.[5]

The Joint Center found that of the 19.6 million tenant households that earned no more than 80 percent of their area's median income, 7.4 million (or 37.8 percent) faced an affordable housing gap, with

[5] In its study, the Joint Center defined inadequate housing as units lacking plumbing fixtures, heating equipment and other mechanical subsystems, and/or displaying inadequate repair and upkeep.

nearly 5 million (or 25.3 percent) living in adequate housing but paying more than 50 percent of their incomes in rent.[6] The affordable housing gap affects a much higher proportion of the lowest-income cohort, those earning less than 25 percent of their area's median income. For the 6 million renters in this lowest income category, nearly 3.5 million (or 57.7 percent) have an affordable housing gap.

In Baltimore, the city's Department of Housing and Community Development reports that nearly 55,400 city households earn less than 80 percent of the metropolitan area's median income *and* pay more than 30 percent of their incomes for rent. This group constitutes nearly 55 percent of the city's renters in this income category—a much higher proportion than the above-reported national rate of 37.8 percent. Among very low income renter households—those earning 50 percent or less of the area's median income—nearly 49,000 pay more than 30 percent of their incomes in rent (Baltimore City Department of Housing and Community Development 1995). This group constitutes over two-thirds of all Baltimore city renters in this income category, a higher proportion than the national rate of 57.7 percent for very low income renters.

Current production of federally assisted housing

During the past 40 years, the federal government has created a variety of programs to facilitate the production of housing that is affordable to low-income households. These programs include public housing; private, developer-based assistance such as below-market interest rates and rent subsidies; investor-based assistance such as the low-income housing tax credit (LIHTC); owner-occupant-based assistance such as Project HOPE; and tenant-based assistance through Section 8 vouchers.

Although some of the affordability gap is being addressed through voucher programs, some must also be addressed through rehabilitation and new construction of housing units. Wallace (1995) reports that production of affordable, federally assisted housing is being dominated by the LIHTC, which will be discussed later in the article. The LIHTC accounted for nearly 56 percent of all the federally assisted rental units in production during 1992.

Federally assisted programs are falling far short of addressing the housing needs of low-income households. A recent HUD study found

[6] HUD reported that the number of households paying more than 50 percent of their incomes on rent and/or living in substandard housing had increased to 5.3 million by 1993 (Vobejda 1996).

that 5.3 million low-income U.S. households pay more than 50 percent of their incomes in rent but are unable to get subsidies due to limitations in HUD funding (Havemann 1998).

Trends in income segregation

The city of Baltimore has a high degree of household income inequality relative to its metropolitan area and to other cities, as measured by Gini coefficients. A Gini coefficient indicates the degree to which annual household income is evenly distributed across all households in a given geographic area. The coefficient ranges from 0 to 1, with a "0" value indicating that all households in the area earned the same annual income (perfect income equality) and a "1" value indicating that one household garnered all of the income earned in the area (perfect inequality).[7] The U.S. Bureau of the Census reports that the Gini coefficient for annual household income in the city of Baltimore increased slightly, from 0.321 in 1980 to 0.323 in 1990, while the coefficient for the whole Baltimore metropolitan area dropped slightly, from 0.286 to 0.284, during the same decade (Glickman, Lahr, and Wyly 1996). Of the 77 cities in the U.S. Census Bureau's study, Baltimore had the 29th highest Gini coefficient in 1990.

Additional measures indicate that, spatially, income segregation of the poor is increasing in Baltimore and in the United States. In their study of segregation of the poor in the 100 largest U.S. metropolitan areas, Abramson, Tobin, and VanderGoot (1995) used dissimilarity and isolation indexes to determine trends in income segregation from 1970 to 1990 and compared them with trends in racial segregation (of blacks).[8] The authors found that, while the 1990 mean indexes of dissimilarity and isolation of the poor were lower than for blacks, from 1970 to 1990 the indexes for racial segregation declined but those for income segregation increased. The

[7] The U.S. Bureau of the Census defines the Gini coefficient as "measured by half of the sum of the absolute difference between the proportion of households in a given income category and the proportion of regional aggregate income that they earn" (Glickman, Lahr, and Wyly 1996, table P12).

[8] An *index of dissimilarity* indicates the percentage of members of a particular group that would have to move to a different neighborhood (usually defined as a census tract for convenience of measurement) to achieve an even distribution of group members throughout a metropolitan area. In terms of poverty, a rating of 50 indicates that half of the poor population in the studied metropolitan area would have to move to a different neighborhood to achieve an even distribution. An *isolation index* indicates how poor the neighborhood of the average poor person is, also measured on a scale of 0 to 100. A metropolitan area with an isolation index of 50 means that the area's average poor person lives in a neighborhood where half of the population is poor.

authors' findings were consistent with those conducted by Kasarda (1993), Massey and Eggers (1993), and Jargowsky (1994).

Baltimore, where the case study neighborhood is located, had the 8th highest index of dissimilarity for the poor in 1990 among the 100 largest metropolitan areas; it had the 27th highest isolation index. In short, attempts to increase the integration of income classes, such as in Butchers Hill, are going against a national tide of spatial separation of income groups.

The national, state, and local support infrastructure for mixed-income housing and affordable housing through historic preservation

Current programs for mixed-income housing creation

There are many federal, state, and local initiatives to create a greater mix of incomes in urban and suburban developments and neighborhoods. The highest-profile program is the attempt by local public housing authorities, with the backing of former HUD Secretary Henry Cisneros, to demolish (or remodel) public housing units and replace (rehabilitate) them with mixed-income developments. An example is the proposal for revamping Chicago's infamous Cabrini-Green public housing development on the city's Near North Side, a plan that includes knocking down 8 of Cabrini's 23 high-rise buildings, replacing them with mixed-income town houses, condominiums, and new schools, and servicing them with new parks, a library, a grocery store, and a police station (Terry 1996). The Cabrini-Green overhaul is part of an eight-year, $2.5 billion HUD program to tear down 100,000 units in high-rise public housing and replace them with a variety of low-rise alternatives, many incorporating mixed-income strategies.

Another federal initiative to deconcentrate the poor is the relocation of public housing residents to privately owned rental units in suburban communities, under HUD's Moving to Opportunity program.[9] Participants are given Section 8 vouchers, through their area public housing authorities, to find private rental housing.

Calavita, Grimes, and Mallach (1997) report that New Jersey and California are the only states that have made income mixing a significant element in the provision of affordable housing statewide. Prompted by major court decisions in New Jersey and legislative

[9] The HUD effort was preceded by the court-ordered Gautreaux program, under which the Chicago Housing Authority has relocated several thousand public housing residents to other areas in the city and to the suburbs (Rosenbaum 1995).

mandates in California, each local jurisdiction in those states must plan for its "fair share" of regional affordable housing need. The primary fair share strategy used by local governments—inclusionary housing—usually involves requirements that developers set aside a certain proportion of a new project's units for households making less than a given percentage of the metropolitan area's median income.[10] However, the authors note that the scope and effectiveness of these two state programs have been diminished over time by political and economic constraints.

Some local governments in other states are attempting to encourage more of a mix of income groups in new developments, through inclusionary housing programs. An example is a recently passed ordinance in Fairfax County, VA, which requires developers building more than 50 houses to ensure that at least 12.5 percent of them are "affordable," in exchange for density bonuses (Lipton 1996). Other Washington, DC, and Baltimore-area counties have similar ordinances, which are mainly geared to ensuring that moderate-income teachers, firefighters, and other public services workers can afford to buy homes in the communities where they work. Thus, in Fairfax, affordable means priced from about $65,000 to $115,000, depending on size and other factors. Montgomery County, MD, has had this type of program since 1974 but expanded it to include very low income households. The county's Housing Opportunities Commission purchases one-third of the affordable units, which it rents to carefully screened low-income households. Montgomery County's program is the only one of the local ordinances that attempts to incorporate very low income households in such private, new development set-asides.

The low-income housing tax credit

The majority of new, affordable housing units being created are under LIHTC. A July 1996 press release from HUD reports that 330,000 housing units were put in service as a result of the LIHTC program from 1990 through 1994 (HUD 1996). It is therefore important to understand its provisions, use, and potential for mixed-income housing creation.

Created as part of the Tax Reform Act of 1986, LIHTC allows investors to deduct a 10-year stream of tax credits in housing developments that meet certain program criteria. To qualify their investors

[10] In New Jersey, half of the affordable units must be affordable to households making less than half of median income. In California, affordable units are mostly targeted to households close to 80 percent of median income (Calavita, Grimes, and Mallach 1997).

for the tax credits (direct deductions from tax liability), the new construction or rehabilitation projects must allocate a minimum percentage of rent-restricted units for households that do not exceed specific income levels. (*"Rent-restricted"* means a gross rent for a unit that does not exceed 30 percent of the household's income.) Under one qualifying formula, at least 20 percent of the units must be rent restricted and occupied by households with incomes of no higher than 50 percent of the area's median gross income, adjusted for household size. An alternative qualifying formula is that at least 40 percent of the units must be rent restricted and occupied by households with incomes of no more than 60 percent of the area's median income, adjusted for household size.

For units meeting either of the affordable-unit and tenant-income criteria just outlined, the tax credit percentage will depend on whether the units are newly constructed or rehabilitated and whether the units receive additional federal subsidies from tax-exempt bonds. Projects that are newly constructed or substantially rehabilitated and that do not receive a federal subsidy in the form of tax-exempt bond financing qualify for a 70 percent tax credit. A lower, 30 percent tax credit is allowed on the acquisition costs and for projects that are subsidized by tax-exempt bond financing. Higher proportions than the 30 and 70 percent credits can be earned for projects located in census tracts that HUD defines as low-income or in "difficult development areas."[11] For example, for new or "substantially rehabilitated" projects in low-income or "difficult development areas," the tax credit is increased to 91 percent.

To continue qualifying for the tax credits, the units must be reserved for low-income tenants for at least 15 years. Failure to comply with this requirement results in federal "recapture" of a portion of the credits earned, plus interest. Out of concern for losing the low-income units after 15 years, the federal government extended the requirement to 30 years, with a provision enabling the state's housing finance agency to attempt to find, within 1 year of the owner's 15-year notice, a buyer committed to reserving the low-income units for an additional 15 years. However, if no such buyer can be found, the owners can sell or convert the project to market-rate housing.

The total amount of federal tax credits available to each state in any given year is calculated at $1.25 per capita. At least 10 percent of each state's credit ceiling must be set aside for use by qualified

[11] HUD defines the low-income tracts as those in which 50 percent or more of the households have incomes of less than 60 percent of area median gross income. A "difficult development area" is an area that has high construction, land, or utility costs relative to area median gross income.

nonprofit organizations. Each state's housing finance agency is responsible for setting up a scoring system for determining which projects receive the tax credits.

The economic logic of the LIHTC creates incentives for projects in which all of the units are reserved for persons earning 60 percent or less of the area's median income. In addition, state housing finance agency scoring systems typically favor projects that are exclusively devoted to very low income populations. The current scoring system used by the state of Maryland eliminated previous language that had allotted points for a mix of incomes. As the system is currently written, the only diversity of incomes that is rewarded is for projects providing units for a mix of households all of which earn below 60 percent of the area's median income (Weschler 1996). This position is supportable because of the enormous need for housing for the lowest-income households and because such projects earn the largest tax credits for investors.

Historic rehabilitation tax credit

The federal historic rehabilitation tax credit (HRTC) provides investors with a 20 percent tax credit on "qualified rehabilitation expenditures" on a certified historic structure. A certified building is one that is listed in the National Register of Historic Places as an individual structure or is certified as contributing to the historic significance of a registered historic district. In addition, structures designated at the state or local level are also certified as historic structures as long as the jurisdiction's historic designation law is certified as conforming to National Register criteria. Any project for which rehabilitation credits are to be claimed must receive prior approval from the National Park Service and conform to the Standards for Rehabilitation produced by the Department of the Interior.[12] Unlike the LIHTC, for which tax credits are claimed over a 10-year period, the HRTC is claimed for 1 year only.

In addition to compliance with the Standards for Rehabilitation and the certification, investors interested in using the HRTC must ensure that the "qualified rehabilitation expenditures" exceed the adjusted basis of the building within a measuring period of 24 months (which, for phased projects, may be extended to 60 months). An example is a property purchased for $1 million, of which $600,000 was allocated for land purchase and $400,000 for the building. To earn the credit, rehabilitation must exceed $400,000 within the measuring period. However, the total amount of the re-

[12] For a summary of the certification process, see Delvac, Escherich, and Hartman (1995).

habilitation expenditures, not just the amount over $400,000, may be claimed for the tax credit (example from Delvac, Escherich, and Hartman 1995, 10).

Qualified rehabilitation expenditures include costs for additions or improvements to real property, along with architectural and engineering fees, site survey fees, legal expenses, insurance premiums, development fees, and other construction-related costs. Qualified expenditures do *not* include the costs for acquisition, new construction and enlargement, or improvements to a portion of a building for a tax-exempt use (Delvac, Escherich, and Hartman 1995). In the case of residential investments for which the HRTC is used, the expenditures must be for improvements depreciated over a 27.5-year period.

The HRTC is claimed for one year—namely, the tax year in which the property is placed in service. If the historic rehabilitation property is disposed of within five years after being placed in service, a portion of the rehabilitation credit will be recaptured, depending on the year in which the property is transferred. Property disposed of within one year after being placed in service is subject to a 100 percent recapture of the HRTC; for each year thereafter, the recapture proportion decreases by 20 percent.

For residential projects, tenants can earn the HRTC if the lease term remaining at the end of the rehabilitation is at least 27.5 years (i.e., the depreciation period). Rather than owning a property outright, the developer can obtain a long-term ground lease and thus have more flexibility in packaging a project.

Combined use of the LIHTC and HRTC

In a recent report, Delvac, Escherich, and Hartman (1995) claim that since 1976 the HRTC has generated more than $15 billion in private investment, although they do not indicate how much of this was for housing-related projects. The authors also refer to National Park Service data indicating an increase in the combined use of the LIHTC and HRTC in recent years. In fiscal year 1993, for example, one-third of the housing units produced through the HRTC were for low- and moderate-income households. They note that, when using the two credits together, the investor must reduce the eligible basis for the LIHTC by the amount of the HRTC before calculating the LIHTC. Nevertheless, the authors provide examples revealing that using both credits together can generate substantial tax benefits for investors. Furthermore, when a portion of a combined project is not low-income housing, the value of the combined credit increases. For example, in a historic preservation rehabilitation project with

ground-floor commercial space and low-income housing above, the space not eligible for the housing credit (the ground floor) *is* eligible for the HRTC. Combining the two credits thus provides the double benefit of encouraging mixed uses and enabling use of tax credits for the entire structure.

A typical way in which tax credits are harnessed for a tax credit–utilizing project is through the formation of a limited partnership. Each partner's share of the partnership is based on his or her proportional contribution of capital. This share will also determine each investing partner's share, for tax purposes, of the tax credits, depreciation, profits, and losses. A limited partnership was the vehicle utilized by Jubilee Baltimore in the St. Michael's Convent, a mixed-income housing project in the Butchers Hill neighborhood that will be discussed later.

Delvac, Escherich, and Hartman bemoan the fact that the combined federal tax incentives are not being utilized as frequently and effectively as they could be, given the large number of vacant and blighted older buildings in U.S. inner cities and the unmet need for affordable housing. Indeed, as MacRostie (1994) reports, only about 100 LIHTC deals a year, nationally, are being done in conjunction with the HRTC. One explanation for this is the complexity of packaging projects that use not only one or both tax credits but a variety of other forms of financing. Although the low-income and historic preservation tax credits may be combined to raise equity capital, even when added to debt financing there is still usually a shortfall in funds necessary to cover the whole project. As a result, developers must obtain grants, subsidized loans, and/or other kinds of assistance. Other concerns are with the significant, sometimes time-consuming review under the National Park Service's historic approval process.

National Trust for Historic Preservation involvement in affordable housing

In the United States, there has been a tension between historic preservation and the creation of affordable housing in architecturally significant buildings. Conversions of historic buildings were often disqualified from historic rehabilitation tax credits because building alterations were incompatible with the Secretary of the Interior's standards. Compliance with the standards sometimes required costly use of materials and labor, which rendered the housing goals economically infeasible. Architectural restoration in a neighborhood was frequently associated with gentrification, the loss of affordable units and the displacement of low-income residents.

However, during the past few years, the federal agencies and national organizations that constitute the historic preservation program in the United States have created an initiative to use historic preservation tools to promote community development in low-income and minority urban neighborhoods.[13] First, the National Trust for Historic Preservation formed a Community Partners Program (CPP) in 1994, designed to create partnerships between community development and historic preservation groups at the national, state, and local levels to demonstrate the effectiveness of "preservation-based community development" (National Trust for Historic Preservation 1994). CPP staff, which includes persons with skills in historic preservation, real estate development, creative lending, and community development, are developing demonstration programs in which CPP will provide the following:

1. Assistance in the development of preservation guidelines that reflect the economic constraints of low- and moderate-income historic districts

2. Housing strategy design for urban historic neighborhoods

3. Real estate project feasibility analysis, including evaluations of financing from a variety of sources, including LIHTC and HRTC, bank and public debt financing options, and bond and tax increment financing

4. Organizational development assistance for new community-based organizations

CPP provides below-market-rate loans from its Inner-City Ventures Fund, which is supported by the Ford Foundation, the Metropolitan Life Foundation, NationsBank, and Fannie Mae. The program will provide access to tax credit equity through a Heritage Partners Housing Fund.

A Task Force on Historic Urban Neighborhoods was created in 1995 to implement a policy statement calling for creatively and flexibly facilitating the production of affordable housing in historic districts. CPP is providing overall direction and funding for the Task Force. CPP is working with established community development institutions, such as the Local Initiatives Support Corporation, The Enterprise Foundation, the Neighborhood Reinvestment Corporation, and the Neighborhood Preservation Initiative (Historic

[13] This group of public, quasi-public, and private agencies includes the National Park Service, HUD, the National Conference of State Historic Preservation Officers, the Advisory Council on Historic Preservation, and the National Trust for Historic Preservation.

Urban Neighborhood Demonstration Project 1996). The Task Force selected several demonstration projects that will result in the creation of model Section 106 programmatic agreements. CPP staff will disburse approximately $1.2 million in Inner-City Ventures Fund loans to these six real estate demonstration projects, write case studies that document the process and outcomes of each demonstration neighborhood, and develop a training module that incorporates the lessons learned from the CPP program.[14]

National historic preservation programs in the United States are clearly attempting to alter the perception that their programs have ignored the plight of low-income, particularly minority, communities. The CPP initiative makes eminent sense, since a large stock of architecturally significant buildings are located in inner-city areas.

State and local incentives for historic preservation in Maryland and Baltimore

In 1996 state legislation created the Maryland Heritage Preservation Tax Credit for the rehabilitation of historic properties. The tax credit became effective in January 1997, at which time it provided state income tax credits of the qualified capital costs expended in the rehabilitation of a "certified historic structure," defined as a structure that meets one of the following criteria: (1) is listed in the National Register of Historic Places; (2) is designated as a historic property under local law; (3) is located in a historic district listed in the National Register or in a local historic district and certified as contributing to the district's significance; or (4) is located in a state-certified heritage area and certified as contributing to the area's significance. The legislature has increased the value of the credits each year, from 10 percent of qualified capital costs in calendar year 1997, to 15 percent in 1998, and to 25 percent in 1999. Unlike the federal HRTC, the Maryland tax credit is available for owner-occupied residential property as well as income-producing property. However, the rehabilitation costs must exceed $5,000 over a 24-month period for owner-occupied residential property. All rehabilitation must conform to the Secretary of the Interior's Standards for Rehabilitation and be certified by the Maryland Historic Trust.

In 1997 the city of Baltimore passed an ordinance providing property tax benefits for owners who rehabilitate the exteriors of locally designated historic structures and structures contributing to the

[14] CPP is currently active in 13 cities. In 1997 the program extended nearly $880 million in loans and $70,000 in grants to a variety of housing, retail, and commercial projects, including 373 units of affordable and market-rate housing (Leith-Tetrault 1998).

character of city historic districts. All rehabilitation design plans must be reviewed by the city's Commission for Historical and Architectural Preservation. For approved rehabilitations, property assessments are frozen for 10 years at the prerestoration levels.

Case study of Butchers Hill

History and profile of the Butchers Hill neighborhood

Nearly all of the Butchers Hill neighborhood of Baltimore (population 1,409) is within a National Register Historic District, the boundaries of which nearly coincide with two city-designated historic districts. Located in southeast Baltimore, with the city's historic Patterson Park forming its eastern border, Butchers Hill is a residential neighborhood featuring brick row houses of different sizes and styles, depending on street size. The street plan was laid out by Thomas Poppleton in a manner to integrate income classes in adjacent streets (see footnote 3). The neighborhood's streetscapes provide excellent views of Baltimore's harbor to the south and downtown Baltimore to the west.

Butchers Hill's history is described as follows in the city's guide to Baltimore's historic districts:

> Unlike most Baltimore neighborhoods, which grew as contiguous expansions of older, harbor-dependent settlements, as individual water mill or stream villages, or as crossroads trading centers, Butchers Hill was settled and existed as a physically isolated, prosperous tradesmen's village before the Civil War. Its subsequent engulfment by an expanding city began slowly in the 1850's, accelerated in the 1870's, and was completed by 1915. . . . The collection of buildings represents a fine cross section of late 19th century rowhouse styles, and belies the uniformity assumed to be inherent in rowhouse communities. The buildings of Butchers Hill are a significant and distinguished entity linked by topography, a unique development pattern, and their integrity, as well as through the frequent use of elaborate iron work for structural and decorative purposes. The resources of the community have and will continue to yield information on the 19th century construction practices and patterns of growth, as well as on the acculturation of Baltimore's German and Jewish communities. (Commission on Historic and Architectural Preservation n.d.)

A history of redevelopment in Butchers Hill: Action and counteraction

Butchers Hill is a small neighborhood in the southeast Baltimore area, the latter of which includes some 95,000 people, most of whom

are second- and third-generation Eastern European immigrants—Poles, Ukrainians, Greeks, Italians, Germans, and Czechs. The area has been the site of extensive community activism since the late 1960s, led by the South East Community Organization (SECO), a coalition of dozens of neighborhood groups, including block clubs, church groups, union locals, civic improvement associations, senior citizen groups, and ethnic fraternal organizations (Fisher 1984). SECO originated in opposition to the proposed development of a six-lane highway through the Fells Point neighborhood (southwest of Butchers Hill), which the group successfully defeated by having the neighborhoods named to the National Register of Historic Places (Cassidy 1980). In the early stages of its colorful history, SECO organized protests to keep open the area's only public nursing home and public library; secured lower-density zoning to discourage further subdivision of homes; successfully lobbied for improved services from the city; and organized housing inspection teams, a neighborhood-based health cooperative, a public school reform program, and a Youth Diversion Project (Brambilla and Longo 1979; Cassidy 1980; Cunningham and Kotler 1983; Fisher 1984).

Over the years, SECO has moved from community organizing into housing and economic development activities. In the early 1970s, SECO created Neighborhood Housing Services (NHS), a community corporation with a board of local residents and bankers. The NHS effort was focused on a 12-block, transitional area north of Patterson Park. NHS helped tenants buy out landlords, brought new families into the area, assisted homesteaders to revive boarded-up units, and secured home improvement loans for several long-time residents (Kuttner 1976).

SECO's housing revitalization efforts in Butchers Hill, however, generated controversy among coalition members and residents. In the mid-1970s, a combination of factors led to a series of events by which major sections of Butchers Hill were redeveloped, for both middle- and low- income occupancy. Many of the units in Butchers Hill had been divided and subdivided during World War II to provide more rental housing. As in other parts of Baltimore, during the postwar years the increased density had taken its toll in terms of housing quality, absentee landlordism, and tenant transiency. One factor that originated in the early part of the decade was that gentrification began in Fells Point. SECO and its newly formed community development corporation (Southeast Development, Inc. [SDI]) were concerned that speculators would begin buying properties in Butchers Hill. SDI was determined to buy properties from absentee landlords before speculators arrived, then fix up the homes and sell them to middle-class residents. Another factor was that the western border of Butchers Hill became insulated from blight by the creation of the Washington Hills Housing Cooperative, a SECO affiliate

that renovated several buildings into limited-equity co-ops (Kuttner 1976). The co-op renovation would help convince potential middle-income home buyers that the area was improving.

In early 1974, SDI obtained an approximately $1 million loan from the Ford Foundation to acquire and do exterior rehabilitation on what turned out to be 120 units.[15] The homes in which SDI were interested were the larger row houses on the east-west streets, such as Baltimore Avenue. The purchaser would be responsible for obtaining financing for acquisition and interior renovation, with technical assistance from SDI.[16] SDI worked with each purchaser to come up with a restoration plan and referred the purchaser to such lenders as the American National Bank and the Baltimore Savings and Loan Association. The latter financial institutions rolled the acquisition and rehabilitation costs into one loan. Most of the new purchasers of the SDI, exterior-renovated homes were college-educated, young professionals who put a lot of sweat equity into their interior renovation work.

Most of the homes acquired by SDI were vacant, but some were occupied rentals owned by absentee landlords. Gasser (1996) states that SDI did an assessment of tenants, determining which ones might be eligible for the tenant-to-homeownership program being run by NHS, which had obtained separate funding to help tenants purchase smaller homes north of Patterson Park. Other tenants were assisted to move to other rental units. The assistance came in the form of free help in transporting possessions to another apartment, or of SDI payment of the security deposit (directly to the landlord) on the next apartment. What form the assistance took was at SDI's discretion for each tenant. Finally, tenants judged to be troublesome were simply evicted upon purchase by SDI. In total, 57 occupied tenant units were taken out of service, and occupants of 25 of the units either left the neighborhood or were assisted to relocate. Tenants from the other 32 units, many of whom were Lumbee Indians, organized the Concerned Citizens of Butchers Hill, with help from another community organization in the neighborhood and Neil Harris, from Jubilee Washington.

Concerned Citizens protested about SDI's tenant displacement to the Ford Foundation (Carson 1977). At Ford Foundation's insistence, SDI sold some of its recently acquired buildings, on the 1900

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[15] Hyatt (1996), former director of Citizens for Washington Heights, and McNeely (1996), former director of Southeast Development Corporation, put the figure at $1 million, while Gasser (1996), former director of Southeast Land Bank, recollected the amount was $650,000.

[16] SDI set up a Southeast Land Bank to handle the acquisitions and rehabilitation. To save the reader from more acronyms, this article will credit the work to SDI.

and 2000 blocks of East Baltimore Street, to Concerned Citizens. Concerned Citizens eventually raised enough funds to buy 32 units, did exterior restoration work and interior patching, and organized a rental cooperative to house tenants displaced from SDI's restoration work. An outgrowth of this effort was the creation of Jubilee Baltimore, Inc., a nonprofit housing organization with an office on West Lombard Street in Butchers Hill.

Gasser (1996) maintains that the forced selling of the 32 units "stopped the long-term development of Butchers Hill in its tracks." He had been telling prospective buyers in the 2000 and 2100 blocks of East Baltimore that the 1900 block would be restored in the same manner as those in the 2100 and 2200 blocks. The controversy over the evictions and forced sale of units to Concerned Citizens "was the beginning of the slowdown," according to Gasser.

It should be noted that, during the time (1970s) that historic restoration work was being conducted in Butchers Hill with SDI and Ford Foundation help, there were no federal or state historic restoration tax credit programs, or regulations on conversion of structures. The historic neighborhood designation of Butchers Hill helped spur interest and investment in the neighborhood, but even the accelerated depreciation allowances for capital investment that existed then were available only for commercial rental property owners, not the kind of sweat-equity owner-occupants being assisted by SDI. In contrast, Jubilee Baltimore has, in recent years, been able to make extensive use of national and state tax credit programs for its mixed-income and affordable housing developments.

Jubilee Baltimore's mixed-income projects

To date, Jubilee Baltimore is involved in five buildings that have an intentional income mix. Two of the projects are profiled here to demonstrate how such projects were put together.

The first project was a renovation of the St. Michael's Convent, a three-story building on the 1900 block of East Lombard Street. The 10-unit project demonstrates the combined use of the HRTC and LIHTC. The lower floor has elderly tenants receiving Section 8 assistance, the second floor has low- and moderate-income tenants, and the third floor contains market-rate units. Tenants in St. Michael's pay, out of their own pockets, anywhere from $6 to $825 per month.

Jubilee Baltimore developed the convent for a speculator who hired Jubilee to put together the development package and design it as

mixed-income housing. The project is owned by the Convent Limited Partnership, of which Jubilee is *not* a partner. Seven of the partners own 50 percent of the project, and an individual who was the building's renovator owns the other 50 percent. The project cost $433,000, which breaks down as follows (information from Duff 1996, executive director, Jubilee Baltimore, Inc.):

1. $143,000 raised from eight individual investors, who receive the HRTC and LIHTC

2. First mortgage: $70,000 from NationsBank, at 10.75 percent interest for 20 years

3. Second mortgage: $200,000 from the State of Maryland's Housing Rehabilitation Program, at 4.5 percent interest over 20 years

4. Third mortgage: $20,000 from the City of Baltimore, with no repayment if four units are leased to low-income residents for 20 years

Jubilee rents four apartments from the partnership on a 15-year lease and then sublets the units to low-income tenants.

Jubilee Baltimore's rehabilitation of the St. Michael's Convent and its reuse for housing were consistent with the Secretary of the Interior's Standards. The conversion required minimal changes to the defining characteristics of the building, and historic materials—such as the wrought iron balconies and tin ceilings—were retained and refurbished. This qualified the building for HRTC credits, which were vital to the project, amounting to 15 percent of rehabilitation costs. However, the building was converted to residential uses prior to the onset of the state's Heritage Preservation Tax Credit and the city's local historic property tax credit.

The second mixed-income project profiled here is a three-story row house on the 1900 block of East Pratt Street. The owner of the building is a social worker who wished to live on one floor while renting out two units to low-income tenants. Upon purchase of the building, the owner approached Jubilee Baltimore for help in designing the renovation. The owner declined to take either the LIHTC or the HRTC because he did not have sufficient tax liability to make the tax credits worthwhile, and the reconstruction occurred prior to the onset of state and city historic preservation tax benefits. The breakdown of renovation financing is as follows:

1. Construction Phase ($167,000)

   Owner: $1,000 cash equity.
   First mortgage: $32,000 from Bay Federal Savings and Loan.
   Second mortgage: $76,000 from Jubilee Baltimore.
   Third mortgage: $58,000 from City of Baltimore in HOME funds. HOME loans are at 1 percent simple interest and attached to the two rental units.

2. Permanent Phase

   Bay Federal expands its loan from $32,000 to $110,000.
   Jubilee gets paid off for its $76,000 loan from proceeds of Bay Federal loan expansion.
   City of Baltimore takes the second loan position.

The East Pratt Street property is one of four mixed-income homes (i.e., with a middle-income owner and lower-income tenants) that Jubilee Baltimore has helped develop.

Jubilee Baltimore's use of LIHTC and HRTC for affordable apartment buildings

Besides the St. Michael's Convent, Jubilee Baltimore has developed three other rental projects in Butchers Hill that depended on the combined use of LIHTC and HRTC. Two of the projects will be briefly profiled. One, St. Elizabeth's Senior Housing, consisted of converting a convent into 20 housing units, which began renting in September 1997. Taken together, the LIHTC and the state and federal historic restoration tax credits totaled 60 percent of the project's $1.7 million cost. In addition, the project qualified for Baltimore's historic restoration property tax freeze, which has reduced what would have been a $15,000 annual property tax bill to only $3,300 (Duff 1998).

Another LIHTC/HRTC project is Polish National Alliance Senior Housing, a 22-unit apartment building currently being developed. The combination of LIHTC and the federal and state historic preservation tax credits raised $1.4 million, or 70 percent of project costs.

The result of the redevelopment struggle in Butchers Hill

The confrontation between SDI and Jubilee Baltimore resulted in Butchers Hill becoming a mixed-income community. About 120 units (over 20 percent of Butchers Hill units) were renovated through SDI for sale to middle-income owners. Jubilee would even-

tually acquire additional housing units for more affordable housing. An example is a 20-unit senior housing project on Duncan Street (an alley street), which was HUD Section 8 funded. In all, Jubilee owns or manages 89 of Butchers Hill's 580 occupied units (over 15 percent). An additional 25 units are owned by the city's housing authority.

A demographic and socioeconomic profile of Butchers Hill

Butchers Hill's demographic and socioeconomic profile reflects the previously described attempts to revitalize the community and provide affordable housing. As with Marble Hill, Butchers Hill's boundaries do not correspond to census tract boundaries. However, the Baltimore City Department of Planning (1993) aggregated 1990 census block data for the neighborhood, making it possible to present a demographic and socioeconomic snapshot for 1990.

Of Butchers Hill's 1,409 residents, 63.4 percent are white, 29.5 percent are black, 7.2 percent are Native American, and none are Asian-American or "other" (table 1). This racial composition represents a higher proportion of whites than is found in the city and a lower proportion of blacks, but a much higher proportion of Native Americans.

In terms of age, for the younger cohorts the community's 1990 age breakdown is similar to that for the city and the metropolitan statistical area (MSA) (table 2). However, Butchers Hill has a much higher proportion of its population in the 25–44 age bracket (46.2 percent) than the city (32.9 percent) and MSA (34.6 percent), and much lower proportions in the 45–64 and over-65 age cohorts.

Table 1. **Population and Racial/Ethnic Data for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

	Butchers Hill	Baltimore City	Baltimore MSA
Population	1,409	736,014	2,382,172
White	893 (63.4%)	(39.1%)	(71.8%)
Black	415 (29.5%)	(59.2%)	(25.8%)
Native American	101 (7.2%)	(0.3%)	(0.3%)
Asian	0	(1.1%)	(1.8%)
Other	0	(0.2%)	(0.3%)
Hispanic*	46 (3.3%)	(0.9%)	(1.2%)

Source: Baltimore City Department of Planning (1993).
*Hispanic is a language/ethnic designation. Persons counted as Hispanic are also included in the various racial groups.

Of Butchers Hill's 588 households, 26.7 percent consist of married couples, a much lower percentage than found in either the city (34.2 percent) or the MSA (52.2) (table 3). Only 10 percent of the neighborhood's households consist of married families with children, compared with 13.4 percent for the city and 23.3 percent for the MSA. Perhaps the most striking household characteristic for Butchers Hill is that 46.3 percent of its households are defined as "nonfamily," compared with 36.6 percent for the city and 29.5 percent for the MSA households. The neighborhood's 1990 proportion of single-parent families is similar to that of the city.

In terms of educational attainment, Butchers Hill's 1990 census data suggest that the restoration efforts and the counteraction have resulted in a community with a relatively large proportion of adults who have not completed high school *and* a relatively large proportion of adults who are college graduates (table 4). Nearly 35 percent

Table 2. **Age Breakdown for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

Age Cohort	Butchers Hill	Baltimore City	Baltimore MSA
0–9	203 (14.4%)	(14.9%)	(14.4%)
10–19	188 (13.3%)	(12.6%)	(12.5%)
20–24	96 (6.8%)	(8.1%)	(7.6%)
25–44	651 (46.2%)	(32.9%)	(34.6%)
45–64	169 (12.0%)	(17.9%)	(19.3%)
65 +	102 (7.2%)	(13.7%)	(11.7%)
Total	1,409 (99.9%)	(100.1%)	(100.1%)

Source: Baltimore City Department of Planning (1993).
Note: Column totals do not add to 100% due to rounding.

Table 3. **Household Types for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

	Butchers Hill	Baltimore City	Baltimore MSA
Households	588	275,977	880,145
Families[a]	316 (53.7%)[b]	175,032 (63.4%)[b]	625,590 (70.5%)[b]
Married couple	157 (26.7%)	(34.2%)	(52.2%)
Married with children	59 (10.0%)	(13.4%)	(23.3%)
Single parent	159 (27.0%)	(29.2%)	NA[c]
Single parent with children	92 (15.6%)	(15.0%)	NA[c]
Non-family households	272 (46.3%)	(36.6%)	(29.5%)

Source: Baltimore City Department of Planning (1993).
[a] A household occupied by two or more persons related by blood, marriage, or adoption.
[b] All percentages are the cell entry divided by the column entry for total households.
[c] MSA data are for female-headed households only, so are not comparable to neighborhood and city data.
Note: NA = not applicable.

of the neighborhood's adult residents have not completed high school, and while this proportion is lower than the city's, it is higher than the MSA rate of 25.3 percent. In contrast, 25.3 percent of the neighborhood's adults are college graduates, compared with 15.5 percent of those in the city and 23.1 percent of those in the MSA.

Butchers Hill's 1990 household income data yield some interesting contrasts (table 5). Even with an increase in middle-income homeowners since the mid-1970s, the neighborhood's median household income of $17,341 is only 72.1 percent of the city's median household income and only 47.4 percent of the median income of the Baltimore MSA. However, Butchers Hill's median *family* income of $30,714 is nearly 9 percent higher than the city's median family income, albeit much lower than the MSA median family income of $42,206. The same pattern is true for per capita income figures.

A higher proportion of Butchers Hill's children under 17 are living in poverty (36.3 percent) than in the city (32.5 percent) and in the MSA (14.0 percent) (table 5). Nearly 25 percent of Butchers Hill's households are on public assistance, compared with 16.4 percent for the city. A remarkable proportion of Butchers Hill's residents over

Table 4. **Educational Attainment Level for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

	Butchers Hill	Baltimore City	Baltimore MSA
Age 25 + , not high school graduates	321 (34.8%)	(39.3%)	(25.3%)
Age 25 + , college graduates	233 (25.3%)	(15.5%)	(23.1%)
16–19-year-olds who are high school dropouts	(0.0%)	(21.3%)	(13.2%)

Source: Baltimore City Department of Planning (1993).

Table 5. **Income and Poverty Status for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

	Butchers Hill	Baltimore City	Baltimore MSA
Median household income	17,341	24,045	36,550
Median family income	30,714	28,217	42,206
Per capita income	13,186	11,994	16,596
Percentage persons age 0–17 in poverty	36.3	32.5	14.0
Percentage persons age 65 + in poverty	58.8	19.3	11.6

Source: Baltimore City Department of Planning (1993).

65 years old are living in poverty, nearly 59 percent, compared with 19.3 percent of the city's elderly and 11.6 percent of the MSA's as a whole. These data partly reflect the success of community efforts to retain affordable housing for low-income people, especially the elderly.

Butchers Hill's labor force and journey-to-work data reflect its convenience for professionals working in downtown Baltimore (tables 6 and 7). Of Butchers Hill's working residents, 32.2 percent are employed in professional and technical occupations, a higher rate than in either the city (23.5 percent) or the MSA (30.7 percent). Nearly 74 percent of the neighborhood's employed residents work in the city of Baltimore, compared with 66.5 percent of Baltimore workers and 34.5 percent of employed persons in the MSA. Strikingly, only 16.4 percent of Butchers Hill's employed residents work in the suburbs, compared with 29.6 percent of city resident workers and 54.6 percent of employed MSA residents.

With regard to housing, of Butchers Hill's 684 housing units, 15.2 percent are vacant, compared with 9.0 percent in the city and 6.3 percent in the MSA (tables 8 and 9). Exactly 36 percent of Butchers Hill's occupied units are owner-occupied, compared with 48.6 per-

Table 6. **Occupational Category of Employed Residents for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

Occupation	Butchers Hill	Baltimore City	Baltimore MSA
Professional/technical	211 (32.2%)	(23.5%)	(30.7%)
Sales/clerical	186 (28.4%)	(33.0%)	(33.8%)
Service	111 (16.9%)	(18.4%)	(12.4%)
Craft/repair	45 (6.9%)	(9.3%)	(10.7%)
Operator/laborer	102 (15.6%)	(15.8%)	(11.5%)
Total	655 (100.0%)	(100.0%)	(99.1%)*

Source: Baltimore City Department of Planning (1993).
*MSA total includes 0.9% employed in farming, forestry, or fishing.

Table 7. **Location of Work for Employed Residents over 16 years old for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

	Butchers Hill	Baltimore City	Baltimore MSA
Work in city of Baltimore	463 (73.6%)	(66.5%)	(34.5%)
Work in suburbs	103 (16.4%)	(29.6%)	(54.6%)
Work outside metro area	63 (10.0%)	(3.9%)	(10.9%)
Total	629 (100.0%)	(100.0%)	(100.0%)

Source: Baltimore City Department of Planning (1993).

Table 8. **Housing Tenure in the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

	Butchers Hill	Baltimore City	Baltimore MSA
Total housing units	684	303,706	938,979
Occupied	580		
	(84.8%)	(91.0%)	(93.7%)
Vacant	104		
	(15.2%)	(9.0%)	(6.3%)
Owner-occupied	209		
	(36.0%)	(48.6%)	(63.7%)
Renter-occupied	371		
	(64.0%)	(51.4%)	(36.3%)

Source: Baltimore City Department of Planning (1993).

Table 9. **Rent and Home Value for the Butchers Hill Neighborhood, Baltimore City, and the Baltimore MSA: 1990 Census**

	Butchers Hill	Baltimore City	Baltimore MSA
Median gross rent	331	319	399
Median gross rent as percentage of household income	25.0	27.3	NA
Median value of owner-occupied units	57,600	53,900	101,200

Source: Baltimore City Department of Planning (1993).
Note: NA = not available.

cent for the city and 63.7 percent for the MSA. Median rent as a percentage of household income is 25 percent in Butchers Hill, lower than the city rate of 27.3 percent.

In sum, Butchers Hill's demographic and socioeconomic profile reflects that of a mixed-income neighborhood with diverse household types, containing affordable housing for lower-income residents and convenient locations for professional workers employed in downtown Baltimore. Much vacant housing existed at the time of the 1990 census, suggesting that the neighborhood had reached a temporary (or long-term) plateau in attracting restoration by owner-occupants.

Critique of the Butchers Hill experience

Butchers Hill's demographic and socioeconomic profile suggests that the "gentrification" action and the counteraction have produced a bimodal population distribution in terms of income, educational attainment, and occupational status. This raises the question of how

much the Butchers Hill experience resembles other community's experiences with gentrification.

In some ways, the Butchers Hill experience is consistent with prior studies on the location of gentrification activities and the characteristics of the gentrifiers. For example, Smith and Williams (1986) link residential gentrification to such factors as the redevelopment of urban waterfronts for commercial and recreational functions, the decline of remaining inner-city manufacturing facilities, and the rise of central-city office developments. All of these factors describe downtown Baltimore. Similarly, LeGates and Hartman (1986) describe a profile of the typical inmovers (gentrifiers) and outmovers (displaced persons)—in terms of age, location of prior residence, race, income, family structure, and occupation—which seems generally similar to what is known of the Butchers Hill inmovers.

However, in certain respects, Butchers Hill does not follow typical patterns of neighborhood gentrification, and some analysts even doubt that there *is* a typical pattern. As Beauregard (1986, 40) notes, "The diversity of gentrification must be recognized, rather than conflating diverse aspects into a single phenomenon." Williams (1986, 66) claims that "gentrification as a concept is an underdeveloped and unevenly developed notion."

While Clay (1980) distinguishes "gentrification" from what he calls "incumbent upgrading," the Butchers Hill case is an example of both activities occurring in the same neighborhood. SECO's Neighborhood Housing Services program assisted tenants to purchase and rehabilitate their housing—a case of incumbent upgrading. At the same time, because SDI-assisted purchasers and renovators in Butchers Hill came from other residences, either inside or outside the community, they would have to be considered as gentrifiers.

Another example of the way in which the Butchers Hill case does not fit easily into improvement typologies is revealed when comparing that community to the models of urban diversity contained in the recent study by Nyden, Maly, and Lukehart (1997) of 14 stable, racially and ethnically diverse U.S. communities. The authors label the first model as "self-conscious diversity," defined as

> a community . . . that is not only very aware of its diversity but has developed an array of community organizations, social networks, and institutional accommodations to sustain this diversity. The self-consciously diverse community actively markets itself as a diverse community. Over the years it brings in new residents who are attracted to the positive characteristics of the community (e.g., proximity to jobs, housing values, and appealing physical characteristics such as a lakefront vista) and who

> are attracted to or at least tolerant of the community's racial or ethic diversity. (Nyden, Maly, and Lukehart 1997, 512–13)

The second model offered by Nyden, Maly, and Lukehart is that of a "laissez-faire diversity," which is a "community [that] has not worked to develop and sustain its diversity" (1997, 513). Instead, say the authors, in laissez-faire communities,

> the diversity occurred as a result of economic and social processes indirectly related to resident or community organization actions. Such processes include (1) gentrification stalled by a poor real estate market; (2) transition resulting from the aging of a community, with older residents moving out or dying and new residents moving into the neighborhood; (3) revitalization of areas adjacent to the community and increased investment in the community; (4) establishment of the community as an immigrant port of entry; (5) development of affordable housing projects; and (6) a standoff between affordable housing advocates and developers promoting middle-income housing projects. (Nyden, Maly, and Lukehart 1997, 513)

In terms of ethnic and cultural diversity, Butchers Hill is an example of self-conscious diversity in the Nyden, Maly, and Lukehart typology. For three decades, SECO has brought together an array of various groups working for community improvement. However, in its experience with architectural restoration and creation of housing for a mix of incomes, Butchers Hill also exhibits many features of laissez-faire diversity, albeit in modified form. Revitalization activities in Fells Point to the southeast and Washington Hills to the west set the stage for middle-income in-migration. "Gentrification" in the community was stalled during the 1970s, not so much by a poor real estate market but by the work of Concerned Citizens and of Jubilee Baltimore. The income diversity is largely the result of a standoff between the latter two organizations and SECO/SDI.

A major reason Butchers Hill does not fit easily into some gentrification typologies is that it is an example of "gentrification" and its countermovement, both initiated by community-based organizations. This factor is discussed further in the following section.

Conclusions and suggestions for further study

Combining mixed-income housing with historic preservation is an appealing concept. In practice, however, a number of issues need to be addressed in the combination of historic preservation, low-income housing, and mixed-income housing. First, while the LIHTC has become the most prolific funding mechanism for affordable

housing,[17] state housing finance agencies face dilemmas in choosing how to allocate their credits. On the one hand, state officials realize the great need for creating, through new production or rehabilitation, as much housing for very low income households as possible. This need leads most states to devise scoring systems for LIHTC project applicants that favor large-scale projects designed exclusively for very low income households. State bureaucracies tend to promote construction of such projects because one project requires less time and paperwork than several smaller ones. That maximum LIHTC tax credits are earned by investors for large-scale projects for exclusively low-income persons (when the LIHTCs are taken without other credits like HRTC) reinforces such priorities. On the other hand, state officials are aware of the pitfalls of concentrating the poor in housing developments. It appears, however, that nearly all states are making the decision to favor exclusively low-income (i.e., below 60 percent of area median income) projects. Because Maryland is one of these states, mixed-income projects like Jubilee Baltimore's St. Michael's Convent may be in jeopardy for not being a high-priority use of the LIHTC.

One exception to this case is the state of Wisconsin, which has altered its LIHTC scoring system to favor projects that mix market-rate and low-income apartments. Additional points are awarded to projects that contain fewer than 24 units, that rehabilitate historic buildings, and/or that qualify for both federal and state historic rehabilitation tax credits (Beaumont 1996).[18] Beaumont quotes a Wisconsin developer who comments on other states' policies that favor LIHTC policies on large-scale, low-income projects: "Many projects financed through [LIHTC] meet only minimal construction standards and are built on the periphery of cities and towns. They are contributing to sprawl. Like federally funded public housing, they will be slums by the year 2010." The developer adds that, by mixing people with different incomes, his projects "avoid creating major social problems that governments at all levels must deal with" (Beaumont 1996, 34).

Regardless of whether states elect to focus on low-income projects or allow a mix, housing planners will need to address a second is-

[17] Many observers believe LIHTC to be a very inefficient mechanism for producing affordable housing. For example, Stegman (1991) concludes that LIHTC could be replaced entirely by a federal capital grant of approximately half of the amount now spent through the tax system.

[18] Part of Wisconsin's official policy was motivated by the approach of the state's sesquicentennial celebration in 1998. To increase the incentive for mixed-income, historic preservation projects, the state has added a 5 percent state tax credit to the 20 percent HRTC (Beaumont 1996).

sue: the need to provide support services to low-income tenants of the new projects. A comprehensive approach, in which historic preservation or mixed-income housing is but one element of a neighborhood restoration plan, is being utilized in several projects nationally. For example, some mixed-income developers furnish tenants with social services, counseling, and job referral, financed by rents over the entire project (Suchman 1995). Lane (1995) outlines components of the mixed-income community strategy created by the nonprofit Chicago Dwellings Association (which converts public housing), one of which is provision of such supportive services as education, job training, child care, and family and financial counseling.

Jubilee Baltimore avoids this in-house service issue in two ways. First, its mixed-income projects are small; except for the 10-unit St. Michael's Convent, none of the five projects has more than 3 units. Second, Jubilee Baltimore relies on the stability of the Butchers Hill neighborhood—the social networks of friends and families of the tenants—to supplement the services of nonprofit and public service agencies in the area, particularly for the low-income seniors living in its two 20-unit apartment buildings (Duff 1998).

A third issue that needs to be addressed in mixed-income projects concerns the selection of tenants, at both ends of the income scale. In general, mixed-income projects are not designed to attract the wealthy. The people who choose to live in market-rate apartments in mixed-income developments "are typically not doctors and stockbrokers, but teachers, nurses and service sector workers who might otherwise be forced to move out of the city" (from a report by Development Strategies, Inc., quoted in Suchman 1995, 3). This was clearly the case in Butchers Hill. SDI's intent was to bring middle-income, working people to Butchers Hill. Neither of the former SDI-affiliated persons interviewed for this paper used the term *gentrification* to describe the process of Butchers Hill's neighborhood improvement. McNeely (1996) describes the effort as one to bring "working-class homeowners" to the community. Gasser (1996) calls the newcomers "college-educated young professionals who didn't have a lot of equity." Nearly 75 percent of Butchers Hill's working residents are employed in the city of Baltimore. As Suchman (1995, 3) observes, "because downtown employees—particularly employees in hospitals and universities—are accustomed to being with a variety of people on a daily basis, they are more comfortable living among a diverse population." Note that it was a social worker who requested Jubilee Baltimore to design a mixed-income arrangement for his newly acquired, three-story row house on East Pratt Street. The "upper" income part of the mix, in Butchers Hill at least, is actually "middle."

The presence of low-income persons in mixed-income projects has required developers to take steps to reassure middle-income tenants. Prospective tenants are carefully screened. One component of Chicago's mixed-income community strategy is the requirement "that families remain drug and crime free and . . . pursue educational and job opportunities" (Lane 1995, 897).

Some low-income advocates fear that moderate-income families may receive preferential treatment over very poor families in mixed-income developments, especially in non-LIHTC programs (Ceraso 1995). One critic of the Chicago Dwellings Association strategy is concerned that the tenant selection criteria may hamper the program's capacity to help the very poor. The criteria examines a family's employment history, the existence and nature of any family member's criminal record, the children's school enrollment, and any substance abuse problems. Defenders of the program's selection criteria point out that such screening is essential for project success in attracting and maintaining an income mix.

Displacement of low-income residents is an inevitable aspect of restoration efforts that involve the sale of units to middle- and upper-income purchasers. Fisher (1984, 93) stated the SECO/SDI removal of tenants was problematic because it raised the question of whether a neighborhood organization such as SECO "could legitimately represent itself as an advocate of community rehabilitation while working against the residents who were its own constituency." Fisher found this to be an especially relevant question because he saw the Butchers Hill project as having the potential for being a national model for similar projects. As Gasser (1996) noted earlier, SDI made conscientious attempts to assist displaced tenants to find other renting (or owning) options nearby and felt no obligation to irresponsible or disruptive tenants. In fact, the SDI approach, along with the counterprograms of Concerned Citizens and Jubilee Baltimore, might constitute one kind of national model for easing the inevitable displacement of low-income renters.

A fourth issue that would provide interesting analysis is the degree to which mixed-income developments are also mixed-race developments. A systematic study of Butchers Hill would be required to determine the amount of racial integration on blocks redeveloped by SDI. However, both of the Jubilee Baltimore mixed-income projects cited above do contain a racial mix. In St. Michael's Convent, of the four low-income tenants, two are white and two are black. In the East Pratt Street row house, the owner-occupant is white and the two tenant households are black. It is not known whether this is typical of mixed-income developments nationwide.

A fifth issue deals with the question of who decides what buildings in a community will be declared historic and what changes in the

community accompany the restoration. In the Butchers Hill case, community-based organizations played pivotal roles in the decisions to determine what buildings to rehabilitate and what kinds of people would inhabit the restored buildings. In that case, however, community-based organizations were pitted against each other in making those decisions. A recent federal policy made by the Advisory Council on Historic Preservation encourages community participation in determining whether a property should be declared historic and how the property should be rehabilitated within the broader context of a neighborhood's overall revitalization (Keister 1996). The Butchers Hill case suggests that there can be great contention within the community over the vision of a community's revitalization.

A sixth issue that needs further study is the degree to which persons of differing income levels actually interact socially in a mixed-income project or mixed-income community and the nature of the benefits, if any, that these different groups receive from being in proximity to each other. In their review of seven large, successful mixed-income developments, Brophy and Smith (1997) found extremely low levels of interaction between the income groups in the projects. Schwartz and Tajbakhsh (1997) cite the need for more quantitative and qualitative research on these and related issues associated with mixed-income developments.

A final issue regarding the combination of historic preservation and mixed-income or affordable housing is the extent to which combined use of the LIHTC and HRTC can be expanded. For several years, the combined use of the LIHTC and HRTC was not widespread. As noted by MacRostie (1994), project applications for use of the HRTC, including affordable housing, declined steadily from 3,245 in 1985 to 598 in 1993, an 82 percent decrease. Applications for combined use of the HRTC and LIHTC held fairly constant at around 100 units per year.

An initial reason offered for the low level of combined tax credit use was that some developers avoid combined use of the credits because of the requirement to reduce the building basis by the amount of the historic credit before calculating the low-income credit. However, one developer interviewed by MacRostie (1994) claims that the erosion in the low-income basis is more than offset by the large increase in the first year made possible by the historic credit. MacRostie (1994, 10) states that "there is general agreement in the affordable housing community that corporate investors' concerns about long-term real estate maintenance issues have caused them to shy away from investing in low-income projects in urban locations." However, he quotes an accountant who advises corporate affordable housing developers as saying: "As corporations become

more sophisticated investors, many of them are recognizing that urban projects are less risky from a classic real estate perspective than many suburban deals. The principal reason for this is that local housing finance agencies or other government bodies acting as lenders in urban projects tend to be more patient than market rate lenders. They put a lot of effort into restructuring debt to keep a troubled project from going under."

Another reason for the dearth of combined LIHTC/HRTC projects up to the year 1994 is that packaging such programs can be quite complex. As Suchman (1995) observes, mixed-income housing cannot be successfully financed using conventional financing models and funding sources. She adds: "Instead, the financing typically involves piecing together funds from a number of public and private sources. Thus the financing for each project will be different and will depend on the nature of the project, the types and levels of funding sources available at the state and local levels, and the degree of local public commitment to the project's goals" (Suchman 1995, 6).

As an example of project complexity, Suchman profiles a mixed-income housing project in Wisconsin that involved the following: equity financing through syndication of LIHTC and HRTC; debt financing through state and local tax-exempt bonds, loans, and a tax-increment financing loan; and subsidies through a Federal Rental Rehabilitation grant and a State Housing and Economic Development Authority Energy Fund Grant. In Butchers Hill, Jubilee Baltimore has utilized a variety of financing and subsidy sources for its mixed-income projects, as exemplified by the two projects described earlier.

In a follow-up to his 1994 study, MacRostie (1997) discovered that combined use of the two federal tax credit programs has increased in the past few years. From its trough of 598 projects in 1993, he found 3,513 combined LIHTC/HRTC projects were initiated in 1996—an increase he attributes to the improving health of real estate markets (especially in multifamily residential development) and the increasing demand for tax credits on the part of corporate investors.

MacRostie believes the market for combined use of the two tax credits will increase in the future due to the recent legislative trend in several states to constrain suburban sprawl and favor development in downtown areas that not only have infrastructure and services in place but also a stock of historic buildings.

In closing, it should be noted that the fate of future mixed-income housing and historic preservation projects will hinge not merely on

trends in downtown real estate markets and state "smart growth" legislation but on federal funding for affordable housing. Supporters of mixed-income housing believe that cuts in federal spending will decrease the chances for expansion of the concept (Ceraso 1995), and the same holds true for combined projects. A related concern is over what happens to the low-income component of LIHTC projects after the 15-year affordability requirement for the credits has been satisfied. The demonstration projects and case studies of the Historic Urban Neighborhood Demonstration Project will provide valuable lessons for housing developers, both profit and nonprofit, in how to effectively combine historic preservation with affordable and mixed-income housing.

Author

James Cohen is a Lecturer in the Urban Studies and Planning Program at the University of Maryland, College Park.

This article reports on research conducted as part of a project entitled "Restoring Ecosystems and Cities: Scientific and Ethical Issues," funded under National Science Grant No. SBR-9422322.

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