Habitat for Humanity International, in partnership with seven Habitat affiliates, received a Neighborhood Stabilization Program 2 (NSP2) grant in 2010 from the U.S. Department of Housing and Urban Development. Habitat used the funding to provide owner-occupied housing for low-income families in neighborhoods across the country, from Miami to Los Angeles, in an effort to meet the program’s goal of stabilizing communities suffering from high rates of foreclosures and abandonment.

Habitat’s use of NSP2 funds is noteworthy because of its concentrated focus in targeted neighborhoods, its use of the Habitat model as a core element in community stabilization, and the diversity of locations where this work took place, resulting in unique approaches by each affiliate.

Habitat asked the UNC Center for Community Capital at the University of North Carolina at Chapel Hill to study the extent to which NSP2 activities undertaken by the seven affiliates have affected the communities in which this work took place. To date, the center has developed a framework for the research project and taken baseline measures.

Once complete, this multi-year study intends to answer the question of whether neighborhoods where
NSP2 funds were invested demonstrated greater stability and revitalization than similar neighborhoods. More broadly, the study’s findings have the potential to improve the understanding of how place-based neighborhood initiatives, such as the Neighborhood Stabilization Program and Habitat’s Neighborhood Revitalization efforts, can benefit communities in observable ways.

The Neighborhood Stabilization Program

The Neighborhood Stabilization Program was established to help state and local governments address neighborhoods devastated by the foreclosure crisis by providing grants to, among other things, acquire and rehabilitate foreclosed properties.

During the first round of funding, known as NSP1, Congress authorized almost $4 billion under the Housing and Economic Recovery Act of 2008. The following year, nearly $2 billion in NSP2 funding was authorized under the American Recovery and Reinvestment Act, and the application process was opened to nonprofits, in addition to state and local governments. In 2010, as part of the Dodd–Frank Wall Street Reform and Consumer Protection Act, an additional $1 billion of NSP3 funding was awarded in the same manner as NSP1.

Habitat received $137.6 million in NSP2 funding, an amount representing approximately 6.9 percent of the total funds awarded during this cycle. After conducting an internal application process, Habitat selected seven affiliates to join in its NSP2 application by making specific proposals for work in NSP2 targeted census tracts. Ultimately, $131 million of the grant dollars were deployed by these affiliates at the local level. These affiliates were selected because of their capacity to both meet the grant’s leverage requirements and handle a significant production increase over the three-year term of the grant. The seven affiliates were able to leverage an additional $56 million in private funds in order to build, rehabilitate or finance a total of 1,245 homes, as outlined in Table 1.

<table>
<thead>
<tr>
<th>Table 1. Habitat Affiliates’ NSP2 Funding and Production</th>
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</thead>
<tbody>
<tr>
<td><strong>NSP2 funds (in millions)</strong></td>
</tr>
<tr>
<td>--------------------------------------</td>
</tr>
<tr>
<td>Habitat for Humanity International</td>
</tr>
<tr>
<td>Dallas Area Habitat for Humanity</td>
</tr>
<tr>
<td>Dallas, Texas</td>
</tr>
<tr>
<td>Habitat for Humanity of Greater Los Angeles, Los Angeles, California</td>
</tr>
<tr>
<td>Habitat for Humanity of Greater Miami, Miami, Florida</td>
</tr>
<tr>
<td>Milwaukee Habitat for Humanity</td>
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<tr>
<td>Milwaukee, Wisconsin</td>
</tr>
<tr>
<td>Habitat for Humanity of Collier County, Naples, Florida</td>
</tr>
<tr>
<td>Habitat for Humanity – New York City</td>
</tr>
<tr>
<td>New York, New York</td>
</tr>
<tr>
<td>Pensacola Habitat for Humanity</td>
</tr>
<tr>
<td>Pensacola, Florida</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

¹ In addition to houses built and rehabilitated, Habitat for Humanity Los Angeles provided one soft-second mortgage.
The recipients of all NSP2 grants are projected to use the funds to address 37,598 housing units\(^2\), with Habitat’s work representing approximately 3.3 percent of this total. With the additional funds leveraged by its local affiliates, the average cost of each Habitat house is roughly $155,000, representing a sizeable investment on a per-unit basis. It should be noted, however, that Habitat’s work results in “for sale” housing units, producing complete homes for homeownership rather than building less expensive rental units, providing loans or engaging in other activities with lower per-unit costs. Habitat’s NSP2 work was intended to do more than simply provide individual housing units; the goal was to leverage the housing units to create broad community benefits.

This broader benefit may be evidenced by median sales prices of houses in Habitat neighborhoods. Between 2010 and 2011, prices increased an average of 20 percent in these communities, even as they fell slightly in comparison neighborhoods. Although this represents a short time at the beginning of the NSP2 work, it is an early, encouraging sign of the benefit of Habitat’s intervention. With more than 129,500 total housing units in the neighborhoods where Habitat’s work took place, an increase in sales price of roughly $1,500 per unit would represent recouping the entire $193.6 million investment. This illustrates the broad benefit of Habitat’s work; while approximately 1 percent of houses in targeted neighborhoods were the direct recipients of NSP2 funds, the other 99 percent have the potential to realize the benefit of rising sales prices.

NSP2 funds were earmarked for five specific activities:

- Financing mechanisms, such as soft second loans, loan loss reserves and shared equity loans, for the purchase and redevelopment of foreclosed homes and residential properties for low- and moderate-income homebuyers.
- Acquisition and rehabilitation of abandoned or foreclosed homes and residential properties.
- Establishment and operation of land banks.
- Demolition of blighted structures.
- Redevelopment of demolished structures or vacant properties.

The vast majority of work undertaken by the seven Habitat affiliates fell into the second and last of these activities, with a focus on acquisition, rehabilitation and redevelopment in high-foreclosure neighborhoods. A handful of “financing mechanism” activities also were undertaken.

All neighborhoods selected for NSP2 work were required to meet HUD-established criteria for vacancy and foreclosure risk, and HUD also stipulated that affiliates could acquire only housing or parcels priced at least 1 percent below appraised value. In some cases, the target neighborhoods were areas where these affiliates had made significant prior investment and were involved not only in individual properties but also in community revitalization. In other cases, however, the neighborhoods were new to the affiliates.

When Habitat’s NSP2 work is complete, the affiliates will have built, rehabilitated or financed a total of 1,245 homes and placed new owners in all of these properties. This work, representing nearly $194 million in addition to sweat equity, volunteer labor and charitable contributions, is a significant investment in these targeted neighborhoods.

The Habitat for Humanity Model
(Information provided by Habitat for Humanity International)

Habitat for Humanity International’s vision is a world where everyone has a decent place to live. Anchored by the conviction that safe and affordable housing provides a critical foundation for breaking the cycle of poverty, Habitat has helped more than 3 million people construct, rehabilitate or preserve homes since 1976. Habitat also advocates for fair and just housing policies and provides training and access to resources to help more families improve their shelter conditions. As a nonprofit Christian ministry, Habitat works in more than 70 countries and welcomes people of all races, religions and nationalities to partner in its mission.

Habitat affiliates are independently run, community-
level entities that act in partnership with Habitat for Humanity International. Each affiliate coordinates all aspects of home building and rehabilitation in its local area with basic policies established by Habitat for Humanity International, including property acquisition, fundraising and family selection. To date, Habitat’s U.S. affiliates have built, rehabilitated or repaired approximately 111,000 homes.

The basic framework of the Habitat homeownership model is explained on the organization’s website, habitat.org, as follows:

- Through volunteer labor and donations of money and materials, Habitat builds and rehabilitates simple, decent houses alongside homeowner partner families.3
- In addition to a down payment and monthly mortgage payments, homeowners invest hundreds of hours of their own labor into building their Habitat house and the houses of others.
- These houses are sold to partner families at no profit and financed with affordable loans that typically have a 0 percent interest rate and payments limited to a certain percentage of household income. Financing also sometimes includes a forgivable second mortgage.
- Homeowners’ monthly mortgage payments are then used to build more Habitat houses.

Affiliates use existing social service networks and grassroots campaigns to reach out to potentially eligible families, holding public orientation meetings to explain the Habitat model and selection criteria. Each affiliate follows a nondiscriminatory policy of family selection; members of the selection committee choose individuals or families based on their level of need, willingness to become partners in the program and ability to repay the mortgage. Typical Habitat families earn between 25 and 60 percent of the area median income, although in higher-cost areas Habitat families may earn as much as 80 percent of the area median income. In addition to performing sweat equity, families typically are provided financial management courses.

3 Although repair work on owner occupied houses was not an eligible NSP2 activity, many Habitat affiliates also include this type of work on a regular basis for income eligible homeowners.

Habitat’s Use of NSP2 funding

The Neighborhood Stabilization Program shares many of the goals of Habitat’s Neighborhood Revitalization efforts. This work expands the traditional Habitat model by including a holistic, community-based approach, focusing on specific neighborhoods and incorporating resident input and partnerships with organizations that concentrate on quality-of-life issues, such as health and education.

The work often includes the rehabilitation and repair of existing homes. Habitat’s A Brush With Kindness program, for example, helps low-income homeowners improve their homes through projects, such as painting, landscaping and weatherization. These ongoing efforts work to improve the quality of life in focus communities, broaden the base of Habitat’s financial support and increase both volunteer participation and the number of families served. These efforts also are well aligned with the goals and activities of the Neighborhood Stabilization Program and may be one reason Habitat for Humanity International was well positioned to effectively deploy NSP2 funding.

The Habitat affiliates’ NSP2 work varied in whether it involved the construction of new houses or the rehabilitation of existing structures. In some cases, affiliates took advantage of the opportunity to complete subdivisions that were abandoned as a result of the housing crisis; in Dallas and Los Angeles, affiliates built new homes in subdivisions abandoned by the original developers. For other affiliates, NSP2 was a first foray into rehabilitation work. This type of work is more likely to occur in older, more established neighborhoods and requires a much different skill set than new construction.

The response of prospective homebuyers also varied. Some showed a preference for newer neighborhoods, but in other cases older, more well-established neighborhoods closer to jobs and social networks held more appeal. Some affiliates had more qualified buyers than properties and could assign clients to homes, while others had to work to attract buyers to struggling neighborhoods.

For some of the Habitat affiliates, NSP2 work represented a significant increase in scale from their
Habitat for Humanity International and its seven affiliates responded to the foreclosure crisis by leveraging Neighborhood Stabilization Program funds with the proven Habitat model. By clustering NSP2 activities in strategically targeted neighborhoods, recruiting Habitat-qualified families, creating no-profit mortgages designed to help fund more Habitat houses and supporting neighborhood-based initiatives, the organization sought to address communities hit hard by the foreclosure crisis.

The organization sought to address communities hard hit by the foreclosure crisis.

Center Study Tracks Lasting Impact

The UNC Center for Community Capital’s multi-year impact analysis aims to track the lasting impact of Habitat’s NSP2 activities. Center researchers developed the methodology, built the analytical models and collected baseline data. In future years, Habitat with center support will measure the longer-term effects of the intervention by repeating the data collection and analysis.

Research Model. Researchers first used key data points to identify census tracts similar to those in which Habitat’s NSP2 work took place. Although a true randomly controlled experiment was not feasible, statistical techniques were used to control for observable differences between treatment neighborhoods and comparison areas. A method known as propensity score matching was used to select comparison communities based on a variety of pre-intervention neighborhood characteristics, and 76 treatment tracts and 87 comparison tracts were ultimately selected for analysis.

Baseline Data. Researchers used several different quantitative sources, such as data from the Home Mortgage Disclosure Act, available property sales data, and crime data, to establish a “before” picture of both the Habitat and comparison neighborhoods. They also visited six of the seven Habitat affiliates to develop an understanding of the specific neighborhood and market context. Data were gathered on these neighborhoods from 2007 through 2011 to establish the pre-intervention baselines.
Habitat for Humanity International Affiliate Sample Profile

Habitat for Humanity of Greater Miami

Houses Built/ Rehabilitated
122 houses built; 42 rehabilitated

Location
Liberty City, located in the northwest quarter of Miami

Background
Prior to NSP2, the organization had completed 57 houses in this area.

Unique Approach
- Miami-Dade County donated vacant lots and properties to the organization.
- NSP2 was incorporated into the organization’s “Liberty City Shine” campaign, in which hundreds of corporations and faith communities donated both funds and labor to help the organization meet its NSP2 goals.
- The organization also worked to generate interest in the project by holding blitz builds.

Challenges
- Liberty City was a thriving middle-class community in the 1940s and 50s, but it declined over the following decades as poverty, disinvestment, racial tension and crime increased, and the foreclosure crisis only exacerbated these issues.
- One of the organization’s biggest challenges was finding qualified families willing to move to the area.

Accomplishments
- The organization strengthened Liberty City by performing A Brush With Kindness projects on existing neighborhood houses.
- It also created strong relationships with law enforcement, working with police to establish monthly meetings with residents.
This baseline data showed a dramatic decline in the demand for mortgage credit between 2007 and 2011 in both Habitat and comparison neighborhoods, as shown in Table 2.

Table 2. Home Purchase Mortgage Applications (per thousand housing units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Habitat Tracts</th>
<th>Matched Tracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>30.0</td>
<td>20.0</td>
</tr>
<tr>
<td>2008</td>
<td>20.0</td>
<td>15.0</td>
</tr>
<tr>
<td>2009</td>
<td>15.0</td>
<td>10.0</td>
</tr>
<tr>
<td>2010</td>
<td>10.0</td>
<td>5.0</td>
</tr>
<tr>
<td>2011</td>
<td>5.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Other trends showed increasing distress in the treatment and comparison tracts in both absolute terms and relative to all other tracts in the affiliates’ metropolitan statistical areas (MSAs). The number of homes sold and sales prices also declined in both sets of neighborhoods during this time period. Numbers sold fell by approximately 30 percent or more, and sales prices fell by 43 percent or more. Foreclosure rates reached a high in 2009 (an annual rate of roughly 25 foreclosures per thousand housing units) and have been falling since, but long-term vacancy rates have more than doubled since 2009, to approximately 4 percent. While crime rates in both Habitat and comparison neighborhoods have fallen since 2008, both have experienced declining employment in the years from 2007 to 2011.

Outcome Measures. Primary outcome measures, listing with their hypothesized results, are as follows:

- **Number of mortgage applications.** Habitat’s NSP2 activities will be associated with a relative increase in mortgage applications.
- **Share of such mortgage applications denied by lenders.** Habitat’s NSP2 activities will be associated with a relative decrease in the denial rate.
- **Number of homes sold and median sales prices.** Habitat’s NSP2 activities will be associated with a relative increase in both measures.
- **Foreclosure rate.** Habitat’s NSP2 activities will be associated with a relative decrease in foreclosure activity.
- **Long-term vacancy rate.** Habitat’s NSP2 activities will be associated with a relative decrease in abandonment.
- **Crime rate.** Habitat’s NSP2 activities will be associated with a relative decrease in crime.
- **Number of employed residents.** Habitat’s NSP2 activities will be associated with a relative increase in employment.

Hypothesis. Researchers hypothesize that communities where Habitat’s NSP2 work took place will experience greater recovery from these baseline conditions, as measured by local housing market impacts, indicators of neighborhood revitalization, and overall economic activity.

As outlined in the list of outcome measures, local housing market impacts include readily available metrics, such as mortgage activity, home prices and foreclosure levels, while crime and vacancy rates serve as indicators of neighborhood revitalization.

Overall economic activity is measured by employment rates; although Habitat homeowners are expected to build sweat equity in their homes, the organization also employs construction workers and members of other skilled trades, and the location of new, financially secure homeowners may also generate a greater demand for local goods and services.

Limitations. It is important to note the limitations of this study; in addition to the issue of non-random control cited earlier, there are many factors that affect neighborhoods and communities, and it is difficult to isolate the effects of one intervention. The potential variables that could be used to measure the impact of Habitat’s NSP2 work were limited by the need to access neighborhood-level data in a timely and cost effective manner. Additionally, defining neighborhoods through the use of pre-defined boundaries, such as census tracts, often results in arbitrary borders that do not necessarily align with residents’ perceptions of a community.

The analytical approach proposed by center researchers takes into account both these limitations and the methodological lessons learned from previous studies. While neighborhoods were delineated based on census tracts, Habitat affiliates were sent maps showing
The Neighborhood Stabilization Program and Habitat for Humanity International project is funded by the U.S. Department of Housing and Urban Development.

The UNC Center for Community Capital is the leading center for research and policy analysis on the transformative power of capital on households and communities in the United States. Part of the College of Arts and Sciences at the University of North Carolina at Chapel Hill, the center’s in-depth analyses help policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively.

Roberto G. Quercia • Director
Janneke Ratcliffe • Executive Director

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The Neighborhood Stabilization Program and Habitat for Humanity International

potential comparison tracts and were able to use their knowledge of the area to suggest removing tracts deemed too different to serve as an adequate basis of comparison. Comparability between treatment and comparison neighborhoods was further strengthened by the use of propensity score matching, with the understanding that adequately matched samples can balance potentially confounding factors.4

Additionally, national databases available at the census tract level allowed for the analysis of a broad range of socioeconomic indicators in a consistent manner; selected indicators are available at a high frequency for an extended period, enabling evaluation of both short- and long-term impacts of each outcome measure.

Next Steps. The majority of the seven Habitat affiliates’ work was completed at the end of 2013. The next phase of the center’s research will be to gather post-intervention data in order to analyze the impact of this work on each of the targeted neighborhoods. Trends will be measured based on changes in the Habitat neighborhoods relative to changes in the comparison tracts, allowing evaluation relative to both baseline data as well to what has occurred in neighborhoods without intervention.4

The differences in outcome measures observed between Habitat’s NSP2 neighborhoods and the comparison neighborhoods will contribute to a better understanding of the program’s effectiveness.

More broadly, the findings have the potential to improve the understanding of place-based neighborhood initiatives and to inform Habitat’s future activities as the organization focuses on helping its partner families succeed within the larger context of thriving, healthy neighborhoods.

Center researchers Janneke Ratcliffe, Kevin Park and Jennifer Tausig prepared this report.