

Addressing the Barriers to Investment in Affordable Homeownership, Blight Reduction, and Racial Equity in Wilmington

Like many communities across the country, the City of Wilmington continues to grapple with the consequences of racially discriminatory housing policies set in place by Federal, state, and local governments in the 20th century. These policies drove residential segregation and shut Black Americans out of the primary source of wealth-building in America – homeownership – while devaluing assets in Black communities and creating a vicious cycle of disinvestment that has fueled abandonment and blight.

As a nonprofit, mission-driven Community Development Financial Institution (CDFI) serving Wilmington, Cinnaire has been working to address this challenge by acquiring and rehabilitating single-family properties in impacted neighborhoods to create affordable homeownership opportunities for Wilmington’s residents (see right). While we are committed to this work, we recognize that for it to be scaled – and ideally replicated by other organizations – we must first focus on the persistent barriers to homeownership in communities of color that require substantial policy solutions. This paper describes these barriers and proposes policy solutions to create homeownership opportunities for Wilmington’s communities of color while addressing blight and stabilizing communities.

The policies detailed in this paper include local, state, and Federal responses. However, given the scale of the challenge and the harmful role that Federal policies played in driving segregation and racial inequity in these communities, it is important to note that Federal resources will be both necessary and appropriate for a sustained effort to reverse long-term national trends. Calls for racial justice have driven interest by policymakers, including [President Biden](#) and key Members of Congress, in taking bold action to reverse the ongoing legacies of discriminatory policies through more equitable housing opportunities. We believe that, in concert with Delaware stakeholders advocating for Federal policy responses to housing discrimination, the City of Wilmington and the State of Delaware have an opportunity and responsibility to invest in communities on the local level by fostering sustainable homeownership for people of color in the City of Wilmington.

Cinnaire’s Single-Family Work in Wilmington To Date

MAY 2021

As part of Cinnaire’s Priority City initiative, our team has been working to understand and respond to the challenges faced by Wilmington’s communities. To address vacancy and blight, we are working to both acquire and develop properties in Wilmington and build more capacity for developers in Wilmington to address the challenge. To date, we have:

- Committed to providing acquisition and construction financing to support single-family work.
- Cinnaire’s nonprofit development arm, Cinnaire Solutions, has provided co-development services and technical assistance to nonprofit developers in the city.
- Cinnaire has launched the Jumpstart Wilmington program to increase local developer capacity in Wilmington. We see increased developer capacity as the key to scaling development activity and revitalizing communities more rapidly.

The Racial Homeownership and Wealth Gaps

Nationally, the effect of discriminatory and racist housing policies has compounded over time, contributing to growing racial homeownership and wealth gaps. In fact, the gap between white and Black homeownership is at a higher level now than at the time of the enactment of the Fair Housing Act more than 50 years ago.

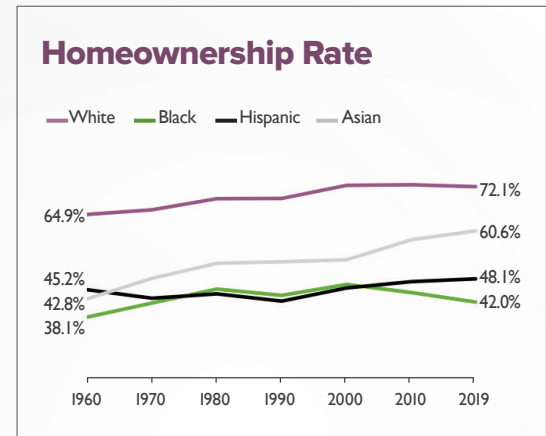
Since homeownership is the principal source of wealth for most Americans, it is not surprising that this homeownership gap is reflected in household wealth data. The Homeownership Alliance [notes](#) that, according to Federal Reserve data, the median wealth of white households is \$188,200, compared to only \$24,100 for Black households and \$36,200 for Hispanic households.

These racial wealth and homeownership gaps have made economic shocks more severe for communities of color, further widening inequality and exacerbating the impact of economic downturns. Black households, who are more likely to work in the industries hardest hit by the economic fallout of the COVID-19 pandemic, “have less wealth because of discrimination and racial injustice” ([Neal and McCargo 2020](#)). Surveys indicate that Black households were most likely to be behind on a mortgage payment during the pandemic. The effects of crises like COVID-19 and the 2008 housing crisis can be hard to reverse: Once a family loses its home, homeownership becomes less attainable for future generations ([Choi, Zhu, and Goodman 2018](#)).

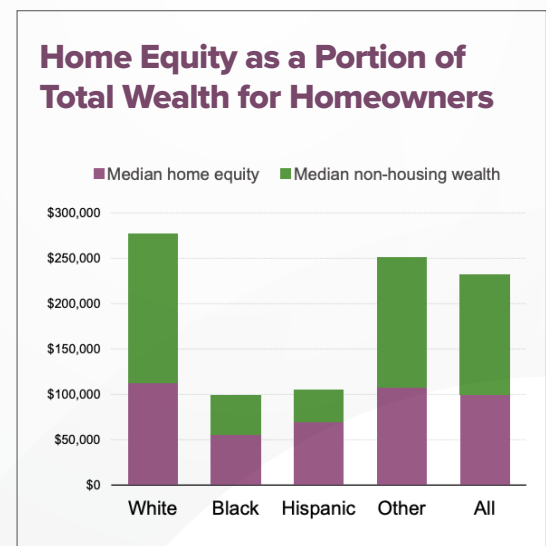
Stopping the Vicious Cycle: The “Valuation Gap” Preventing Single-Family Development in Wilmington

The interplay of these dynamics has fueled disinvestment in Black communities across the United States. This is particularly the case for majority Black cities with aging housing stocks that have experienced population losses in recent decades. Since Wilmington was built for more residents than its current population, the city has more than 1,700 vacant and blighted homes that have been widely viewed as contributing to crime, drug use, and community instability. The challenge of repurposing or removing these properties has troubled the city for years.

Wilmington is not unique in this regard. In other cities that have experienced population loss, like Detroit and Cleveland, public sector entities have worked to clear the backlog of blighted or abandoned properties, but the scale of the challenge necessitates public sector capital for a sustainable solution. Unfortunately, the lack of wealth in these communities creates a perpetuating cycle that prevents investment due to what is known as the “valuation gap”: The cost of acquiring and rehabilitating a property typically exceeds its fair market value. Without subsidy to make up this gap, there is no incentive for private sector developers and investors to engage in acquisition and rehabilitation of properties in distressed neighborhoods. Examples of this valuation gap in action (see right sidebar next page) show the challenges to acquiring and rehabilitation homes in these markets.



Source: Urban Institute



Source: Urban Institute: *The Case of Homeownership*

This dynamic builds on itself. With limited prospects for home value appreciation, capital is all but impossible to find. Without readily available capital, few developers are interested in working in these markets. At the same time, low home values make it difficult for potential homebuyers to get a mortgage: Even with affordable sale prices, borrowers may not be able to find a lender who will make a mortgage larger than the appraised value of the home. Without comparable prices available, home values are driven even lower, feeding the cycle of disinvestment.

This is a barrier to affordable homeownership development that cannot be fundamentally addressed without a combination of subsidy and mechanisms for reducing acquisition and rehabilitation costs. These efforts can and should be complemented by policies to boost homebuyer assistance, including down payment programs, counseling, and mortgage products for borrowers of color.

Policy Solutions at the Local, State, and Federal Level

Calls for racial justice have rightfully shifted attention to policies to boost homeownership in communities of color as a means of addressing racial wealth and opportunity gaps. In addition, the disproportionate burden placed on minority communities by the COVID pandemic has exposed the need to address the root causes of these negative outcomes, including housing and wealth inequality. This moment should be seized upon as an opportunity to leverage local, state, and Federal policies to meaningfully address this challenge in Wilmington. It should also drive public sector leaders to develop initiatives on par with previous redevelopment efforts targeted at certain areas, such as Wilmington's Riverfront.

Based on our experience, we believe that directing resources toward addressing the valuation gap will tackle the main barrier to leveraging private investment. In addition, public policies should continue boosting the pipeline of borrowers who are capable and interested in homeownership in impacted neighborhoods.

We believe that the following policy recommendations at the local, state, and Federal levels will be necessary to scale affordable homeownership development in Wilmington, creating opportunities for homeownership in communities of color while also stabilizing neighborhoods.

The Valuation Gap in Action: Examples in Wilmington

Few developers have demonstrated sustained interest in acquiring and rehabilitating homes for sale at an affordable price to local residents in neighborhoods in Wilmington affected by blight. The existing market conditions support prices far below the costs of either acquisition and rehabilitation or new construction. While exact costs are difficult to ascertain because of a lack of activity, a typical developer would face the cost and market dynamics shown by these two examples in key neighborhoods in Wilmington:

- In East Wilmington, a developer might expect a sales price of \$65,000 per home. Due to the challenges posed by aging housing stock and historic district requirements, total development costs could approach \$200,000 per unit, resulting in a needed subsidy in the range of \$90,000-\$130,000 per unit to reconcile to the anticipated sales price.
- In West Center City, there are fewer options for renovation, resulting in a developer pursuing new construction and rehabilitation. Because the area has higher supportable comparable sales, the developer projects to sell the home for \$95,000. Similar development costs would result in a gap of more than \$100,000.

Recommended Policy Actions

City of Wilmington

- Create a single-family development subsidy program strategically focused on neighborhoods that meet certain criteria in the City of Wilmington
- Deploy American Rescue Plan funding to increase the level of community development activities in the City of Wilmington, especially in coordination with a strategically focused single-family development program
- Continue to provide low-cost transfers of abandoned or blighted property from the Wilmington Neighborhood Conservancy Land Bank (WNCLB)
- Eliminate historic preservation requirements and license, inspection, and occupancy fees in priority or distressed neighborhoods, such as the East Side, which can increase renovation costs by \$40,000-\$50,000 per house
- Coordinate single-family efforts with other ongoing and future community stabilization strategy and efforts, such as a potential lease-to-own initiative through the Low-Income Housing Tax Credit, existing homeowner repair funding, lot clearance when appropriate, and other activities
- Increase funding for existing homeowner repair work to help keep low-income homeowners in their homes
- Develop a clear assessment of the inventory of abandoned homes in the City

New Castle County

- Utilize American Rescue Plan funding, the Housing Trust Fund, and other federal resources to support single-family housing and community development in the City of Wilmington and other areas

State of Delaware

- Increase the level of funding for the Strong Neighborhoods Housing Fund (SNHF) program, the Housing Development Fund (HDF), and develop new initiatives designed to cover the gap for single-family development
- Continue providing housing counseling assistance and align counseling programs with buyers interested in purchasing a property acquired and rehabilitated through City of Wilmington/Land Bank programs

- To address the challenge of a lack of mortgage availability, provide a special program under DSHA's bond program that accepts mortgages where the appraised value is less than the purchase price in priority or focused communities and/or in coordination with specific developers working to meet the challenge
- Dedicate funding from the HOME and Housing Trust Fund programs to support single-family homeownership developments
- Waive Transfer Tax and State Improvement Tax in priority or distressed neighborhoods

Federal

- Ensure that potential infrastructure legislation includes robust investments in affordable housing infrastructure
- Enact the [Neighborhood Homes Investment Act](#), which would create a tax credit for single-family development in distressed communities to make up the valuation gap. This bipartisan bill, which is cosponsored by Senator Chris Coons (D-DE) and has been endorsed by President Biden, is modeled on the successful Low-Income Housing Tax Credit, which has spurred the development of affordable rental housing
- Provide competitive grants to community partnerships that rehabilitate homes for homeownership or rental housing in distressed communities and provide other community revitalization activities by enacting the [Restoring Communities Left Behind Act](#), which is cosponsored by Rep. Lisa Blunt Rochester (D-DE)
- Increase funding for the HOME and CDBG programs and provide set-asides for acquisition/rehabilitation activities in underserved communities
- Increase grants to Community Development Financial Institutions (CDFIs)
- Increase resources for down payment and settlement assistance
- Address barriers to mortgage credit, such as tight credit boxes and credit score utilization
- Build on the success of the Community Reinvestment Act (CRA) to drive investment into underserved communities

CALL TO ACTION: Promoting Social Equity in Wilmington's Neighborhoods

As a CDFI working in Wilmington and other cities facing similar challenges, we are committed to using our expertise and resources to create opportunities for homeownership for communities of color. For this work to be sustained, we believe that public policies should help drive investment and fill gaps created by a legacy of discrimination and racism. Cinnaire is not alone in working to address these issues in Wilmington, and we hope to encourage conversations about the best ways for community organizations, public officials, and other stakeholders to work together to address Wilmington's challenges.

Reversing the ongoing effects of intentional policies requires intentional solutions. Wilmington has both an opportunity and a responsibility to address these issues at the local level by creating affordable homeownership opportunities in neighborhoods that have suffered from racism and disinvestment. This is imperative not only for racial justice, but also for the stability of Wilmington's communities and the health and safety of its residents. Given the power of homeownership to support both wealth-building and community stability, providing more sustained resources for homeownership can directly respond to racial injustice while fostering opportunity for Wilmington's communities of color.

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