Louisville Housing Needs Assessment

Executive Summary

This Housing Needs Assessment (HNA), undertaken on behalf of Louisville Metro Government's Office of Housing and Community Development (OHCD), in partnership with Louisville Affordable Housing Trust Fund (LAHTF), sets out to diagnose symptoms of disparate impacts in Louisville neighborhoods and to potential strategies to reshape a housing market that works for the benefit of all Louisvillians.

The HNA examines data within three key spheres:

1. **Health i**s defined by the financial stability of residents, the quality of housing stock, and the pace and type of development activity in the housing market within each neighborhood.
2. **Diversity** is described by the availability of myriad housing typologies and location preferences that meet the needs of Louisville's increasingly diverse residents.
3. **Equity** is determined by the accessibility of opportunities for economic mobility within each neighborhood, such as income growth and wealth building.

Data outcomes for these core themes vary widely among neighborhoods, typically following trends that have a root in historic patterns of investment. Many of these trends were originally carved out through the historic practice of redlining, but they continue to shape Louisville's neighborhoods and deeply affect resident outcomes.

The HNA analyzes housing-related needs within 21 housing market areas that together cover the entirety of Jefferson County. The market areas, drawn by Louisville Metro Government (LMG) for planning purposes, encompass groups of 2010 census tracts that share geographic and socioeconomic characteristics.

Within each of these market areas, a number of indicators are used to paint a picture of health, diversity, and equity outcomes.

Affordable housing is a critical need across Louisville for all income levels. The HNA recommends addressing the need for those making up to 30% AMI. In total, 31,412 units are necessary to fulfill this need. Addressing this need will create a "cascading effect" that will create more opportunities for those in income brackets above that. The cost to develop 31,412 new units of housing affordable for Louisville's lowest income households is estimated to be over $3.5 billion. The cost of not addressing the need is not measured in dollars, but in impacts to the livelihoods of our citizens.

Health

In this HNA, health is defined by residents who are economically stable and have sufficient income to cover housing costs. It is also defined by homes that are in good condition, free from hazards, and part of a well-functioning market. The ability to be stably housed in a home of good condition is a basic foundation of overall quality of life upon which other positive health outcomes, including physical and mental health, can be built.

In Louisville today, stable housing in a decent home is more difficult to achieve in some market areas than in others. Citywide, two thirds of the workforce is employed in a sector with real median annual wages that have stagnated or declined since 2010. Yet the impact of negative wage trends on household incomes is most visible in market areas in the northwest of the county—particularly West Core, Northwest Core, and Downtown, where poverty rates exceed 40 percent and median household incomes are around half of the citywide median.

Housing instability contributes to frequent residential turnover, which has negative implications for individual families and for neighborhoods as a whole. Market areas with widespread housing instability tend to have similarly poor health outcomes in terms of housing condition and development activity. High rates of boarded-up homes, exterior housing problems, and demolition characterize market areas in the northwest of the county, where residential vacancy rates exceed 20 percent in some census tracts.

Diversity

The assessment of diversity within Louisville's housing market areas looks at both housing typologies and demographic characteristics. Louisvillians are vastly diverse not only in race and country of origin, but also in their age and ability, family size, living preferences, and incomes. Without sufficient variety in housing types, sizes, and price points, it is impossible for each market area to demonstrate the rich social and cultural diversity that exists in Louisville.

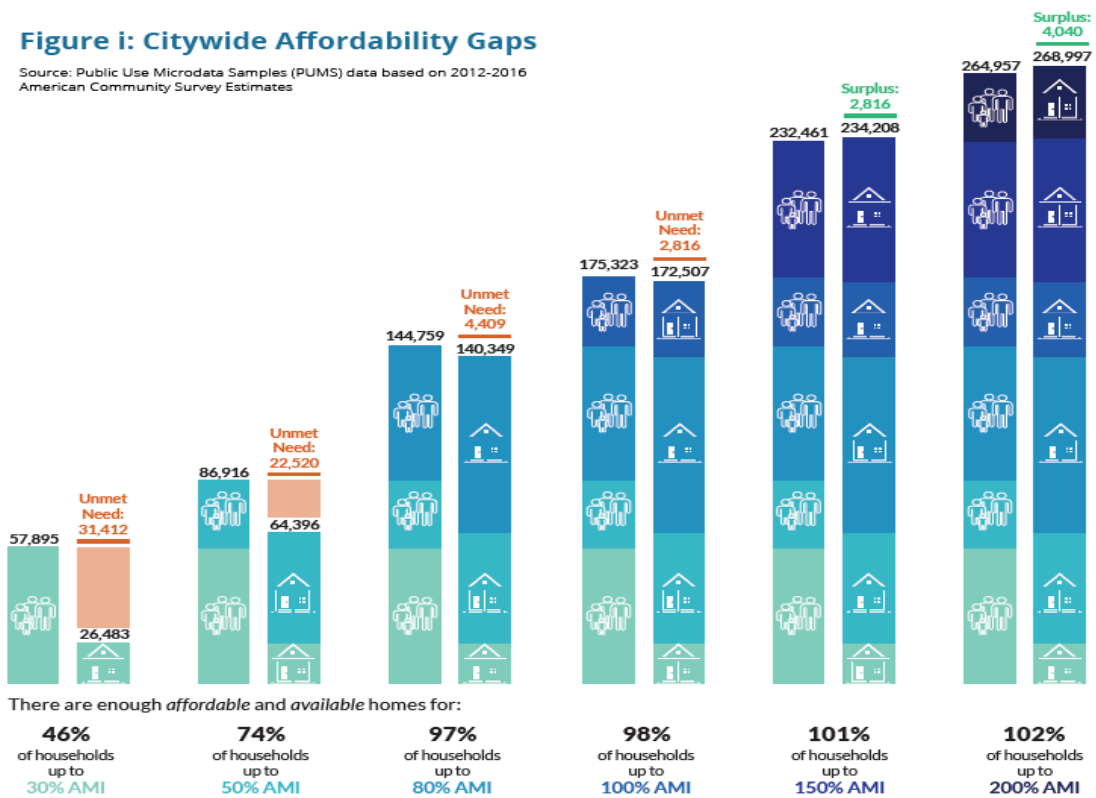
Though Louisville is growing more racially and ethnically diverse, its residents remain generally segregated. Black or African American residents make up 22 percent of the total population, but they represent the majority of residents in just four market areas in the northwest of the county—Northwest Core, West Core, Downtown, and University. This pattern reflects the legacy of redlining.
Households also tend to be separated by income and tenure. Louisville's housing stock is varied in appearance and age, but options for renters and lower-income families in particular are concentrated heavily in the northwest market areas.

Louisville has a subsidized affordable housing inventory that includes 16,441 units in 338 developments, but nearly half of all assisted developments and units are located in the same four market areas mentioned above. Around one eighth of all subsidized units will lose their affordability restrictions in the next five years. The restrictions in many of these units are likely to be renewed, but developments that are located in or adjacent to areas experiencing housing market growth and increasing development pressures are most at risk of conversion to market- rate prices.

In Louisville as a whole, there is a shortage of homes for families whose income is lower than the Federal Poverty Level. There are only enough affordable and available homes for 46 percent of these lowest-income families, with an estimated shortage of 31,412 units. The shortage causes an overall affordability gap that affects all families whose income is lower than the area median, severely limiting housing choice for many Louisvillians.

Figure i: Citywide Affordability Gaps

Source: Public Use Microdata Samples (PUMS) data based on 2012-2016 American Community Survey Estimates



If Louisville had 31,412 additional units that were affordable to households below the Federal Poverty Level (and if these homes were all occupied by the families who need them), then an affordability gap would not exist in the city for households in any income group.

Equity

Health and diversity of housing choice are critical to ensure that all Louisvillians have a safe and decent quality of life. Equity, meanwhile, is possible only when each resident has fair access to opportunities for upward mobility. This HNA measures equity by possibilities for homeownership and economic mobility, as well as by residents who are well-equipped to take advantage of these opportunities no matter where they live or what they look like.

Homeownership is one of the most effective ways to build wealth. By building wealth, families gain more control over their own health outcomes and housing choice. They also improve their ability to pass these benefits on to future generations. Yet today, households of color are more likely to be denied mortgage loans and much less likely to own a home than White households. In fact, higher-income Black applicants were more likely to have high-cost loans than lower-income applicants of any other race or ethnicity. These trends contribute to disparate ownership rates in Louisville; while 70 percent of White residents own their homes, ownership rates are less than 40 percent among Black and Latinx families. Homeownership is also becoming more difficult for Louisville's younger residents.

Among Louisvillians who own a home, location can have an outsized impact on the home's value. Low home values, described by sales comparables, can significantly harm the investment value of current homeowners. They can also impact the ability of developers to secure construction financing from banks, which ultimately impedes redevelopment efforts on these blocks. In some cases, particularly in West Louisville, blocks of neighborhoods suffer from low home and land appraisal values that persist even after significant redevelopment has occurred.

Opportunities for economic mobility also vary widely by geography. Market areas in the northwest have relatively low access to key resources like jobs, stable housing, transit, and health hazard mitigation, while other market areas more easily connect their residents to a wealth of opportunity. In order to increase equity in Louisville's neighborhoods, disparities in opportunity across geography, as well as across demographic characteristics like race, ethnicity, age, and ability, must be alleviated.

Displacement Risk

As home values increase in older, lower-income neighborhoods located near Louisville's vibrant urban center, there is a growing challenge to help guard against the displacement of current residents and businesses and to help create and preserve affordable housing and local businesses in these areas.

This HNA focuses on the risk of residential displacement that results from increased development pressures combined with financial instability among households, which impacts their ability to adjust to rising housing costs. The risk is highest in neighborhoods like Russell, where a multi-million-dollar redevelopment of Beecher Terrace will evolve over the next several years, and in neighborhoods like Smoketown, where renovations of older homes are becoming more frequent and profitable. There is also a high likelihood of gentrification from investment in newly designated federal Opportunity Zones, which cover much of the market areas in West Louisville. Mindful of this danger, Louisville Metro is taking steps to lessen the risk of gentrification. In partnership with Kenan Charitable Trust, for example, the city has formed Russell: A Place of Promise to focus on wealth-building activities for existing residents and businesses in that community.

Potential Strategies

The HNA assesses the extent to which each Louisville neighborhood is healthy, diverse, and equitable, both in its physical housing stock and among its households. The city's neighborhoods are myriad in their current conditions, so effective strategies to promote health, diversity, and equity vary by market area.

The HNA strategies have three primary goals. The first is to make strategic use of City resources, especially through the use of City-owned land, the land bank, code enforcement, and rehabilitation activities. The second goal is to harness the private market through key opportunities to engage private partners in generating new economic investments in Louisville. The third goal is to expand access to capital, with an emphasis on the critical need to foster economic opportunities among low- income households, people of color, and small businesses.

These three goals come together to create the following strategies. Over the next few months, Metro will review these strategies and begin implementation of a combination of them that make sense for our market and community.

Local Solutions - Funding

- Dedicated funding source to sustain affordable housing initiative.
- Create a Community Land Trust to help create new affordable homeownership and wealth creation opportunities.
- Preserve unsubsidized affordable housing units through acquisition and rehabilitation.
- Allow financing of a Renter Equity Program under LAHTF to allow tenants to build equity while renting a unit.
- Adopt a proactive systematic code enforcement program for rentals.

Local Solutions - Policy

- Designate Investment Strategy Areas that prioritize and facilitate creation of affordable and market-rate housing and direct Metro investment to those areas.
- Adopt Anti-Displacement measures.
- Explore implementation of inclusionary zoning regulations in the Land Development Code.
- Extend the period of affordability on housing projects financed by LMG/LAHTF.
- Establish a Lien Release and Code Violation Forgiveness Program.
- Reduce parking requirements for affordable housing developments.
- Utilize the Health Impact Assessments to evaluate Metro's policies, regulations and incentives for creation and preservation of housing units.
- Continue to incorporate cool roofs standards in owner rehabilitation and multi- family construction projects.

State Solutions – Require Change to State Law

- Continue the Tax Delinquency Deferral Program to prohibit the sale of delinquent tax bills in the neighborhoods with high levels of vacant properties. Review the program regularly to determine if areas need to be removed or added.
- Expand the Low-Income Housing Tax Credit program through a mixed income initiative in collaboration with Kentucky Housing Corporation
- Consider deed restrictions on certain properties previously owned by the city that preserve long-term affordability.
- Exclusionary taxing for developers who create a specified number of affordable units within a market-rate development
- Freeze real estate property taxes for at risk homeowners
- Require visitability accessibility standards for all new residential developments

Peer City Successes

Cincinnati, Ohio's Community Land Trusts own the land on which affordable housing is constructed, ensuring its affordability into perpetuity. The Community Land Co-op has succeeded in empowering families with low and medium income to own homes in the West End and neighboring communities by retaining ownership of the land to perpetuate affordable housing since 1980.

Additionally, The Cornerstone Renter Equity Program in Cincinnati recognizes that not all low-income renters wanted to be homeowners, but that homeownership was the key to wealth creation. Residents who participate and live in the property can earn up to $3500 in credits after five years, after which time they are vested and can cash it out.

Columbus, Ohio offered incentives to rehabilitate dilapidated structures by offering owners a tax break, they pay the same taxes as prior to the improvements to keep units affordable after development.

Nashville, TN has a Land Bank Authority which works with public, private, and non-profit partners to use the proceeds from the tax foreclosure process, proceeds from home sales and rental programs, and grants, loans, and bonds to construct affordable housing.

St. Louis, MO has an Affordable housing Trust Fund that is funded by a Local Use Tax, of which every dollar is matched by $17 in public and private funds and they offer tax incentives to at-risk homeowners in the form of a reduced tax payment.