Housing South Bend:
Opportunities for transformative investment

Photo courtesy of City of South Bend, Indiana Department of Community Investment

RICE UNIVERSITY
Kinder Institute for Urban Research

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The Kinder Institute is an interdisciplinary research organization at Rice University in Houston. The institute works in direct partnership with agencies and organizations that can use its research, data and policy analysis in meaningful ways to implement solutions to critical challenges. Its research agenda is jointly developed with these partners and addresses the intersecting issues of housing, education, economic mobility, health and population research.

Executive Summary

Through the American Rescue Plan Act , the city of South Bend has $6 million to spend on housing.

- In early 2021, the Biden administration signed the American Rescue Plan Act , or "ARP". The law allocated billions of dollars to local governments for many different projects, including affordable housing. Of the city's $45.2 million ARP allocation for Fiscal Year 2022, $6 million is devoted to "safe, affordable housing." To earn maximum leverage from the investment, the city asked the Kinder Institute for Urban Research (KIUR) to perform an analysis on its existing housing market and empower the city with data to inform its funding options.
  - Part of this project also entailed KIUR hearing input from South Bend stakeholders in the city government, not-for-profit affordable housing development, for-profit home construction, and property management sectors during two site visits in December 2021 and April 2022.

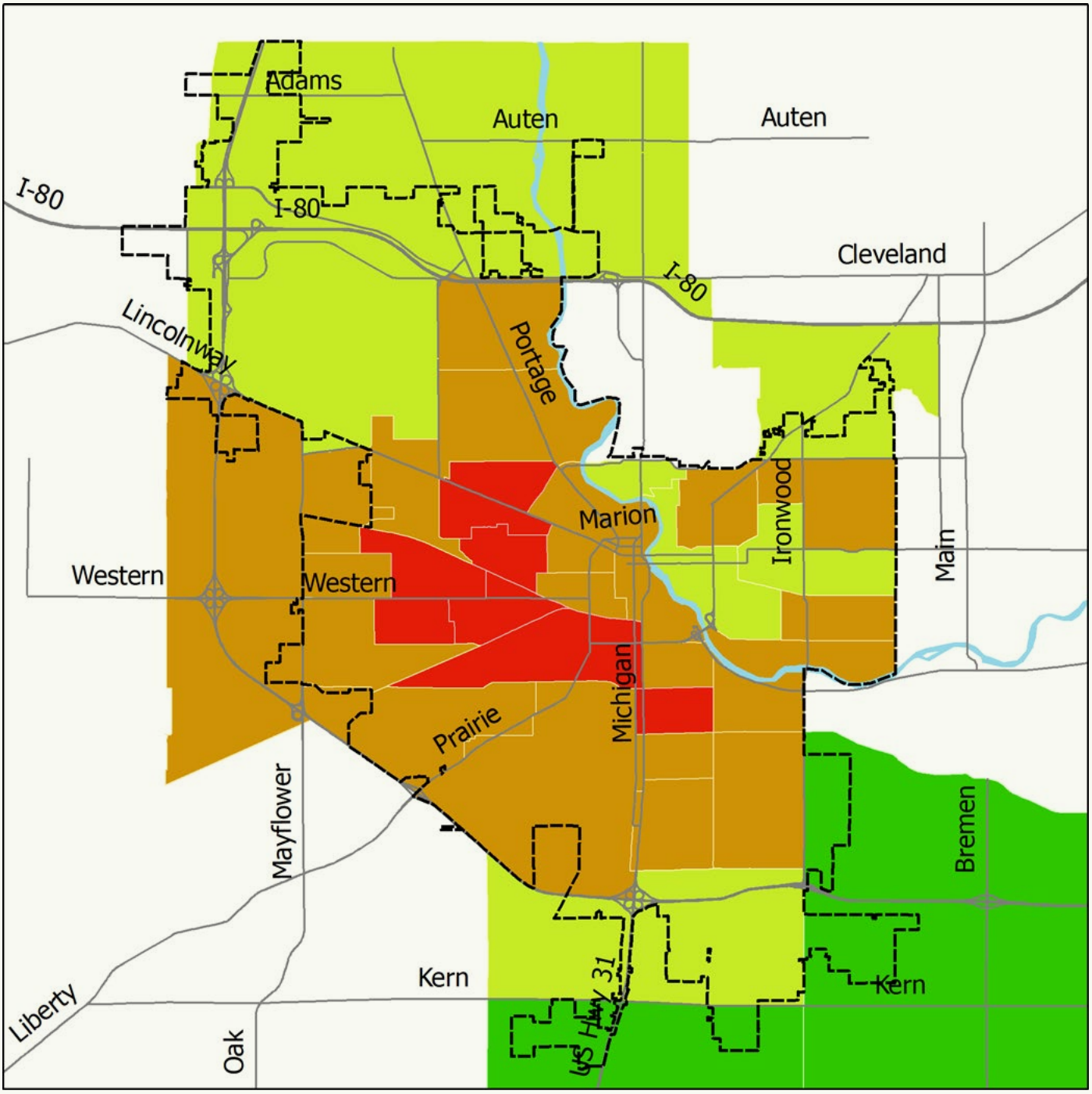
South Bend's homeownership affordability challenges are multifaceted.

- According to multiple listing service (MLS) data on home sales from 2016 to May 2021, nearly every single census tract in South Bend has a significant gap between the hypothetical cost of constructing a new home and the average sales price in that census tract. This is referred to as the "appraisal gap" in this report. This widespread gap suggests that local homebuilders may be timid about building in central city tracts, and instead choose to build in South Bend's growing suburbs.
- Additionally, a newly built home with a sales price of $200,000, which is the estimated cost of construction, is unaffordable to most South Bend residents. Estimated monthly mortgage costs would be $1,297[1], which is beyond the 30% monthly income affordability threshold of a household earning the city's 2019 median household income (MHI), $40,265.
- Yet in most census tracts, the average sales price of an *existing* home was within reach of a household earning the tract's median income. Between 2016 and mid-2021, the average home sales price citywide was $104,106.[2] With a conventional Fair Housing Administration (FHA) loan, estimated monthly costs would be $757, a sum that is within the 30% affordability threshold of South Bend's MHI. Many neighborhoods have much lower sales prices than $104,106, with seven census tracts having extremely low mean sales prices below $50,000.
- Such statements about local home affordability do not take into account home quality. Regarding quality, many homes are older and in need of significant rehabilitation, and a "down-to-the-studs" renewal of an older home is often in excess of $100,000, which is close to the city's mean sales price.
  - While not a citywide survey of home quality, South Bend's high vacancy numbers suggest many homes are in need of repair. As of the 2019 American Community Survey, an estimated 21% of the city's housing units are vacant, while the most recent U.S. Postal Service vacancy data shows 3,569 residential addresses vacant in the city. Statements about home

1 This assumes a 3.5% down payment, a 4.5% yearly mortgage interest rate paid monthly, 1% property taxes, 1% home insurance, and 0.85% private mortgage insurance. Notably, this estimate does not account for upkeep or utilities. These assumptions are standard for monthly housing costs.

2 Unless otherwise mentioned, all sales price figures are only for traditional or private sales, as marked in MLS data, and inflation-adjusted to 2021 dollars.

Appraisal Gap in South Bend

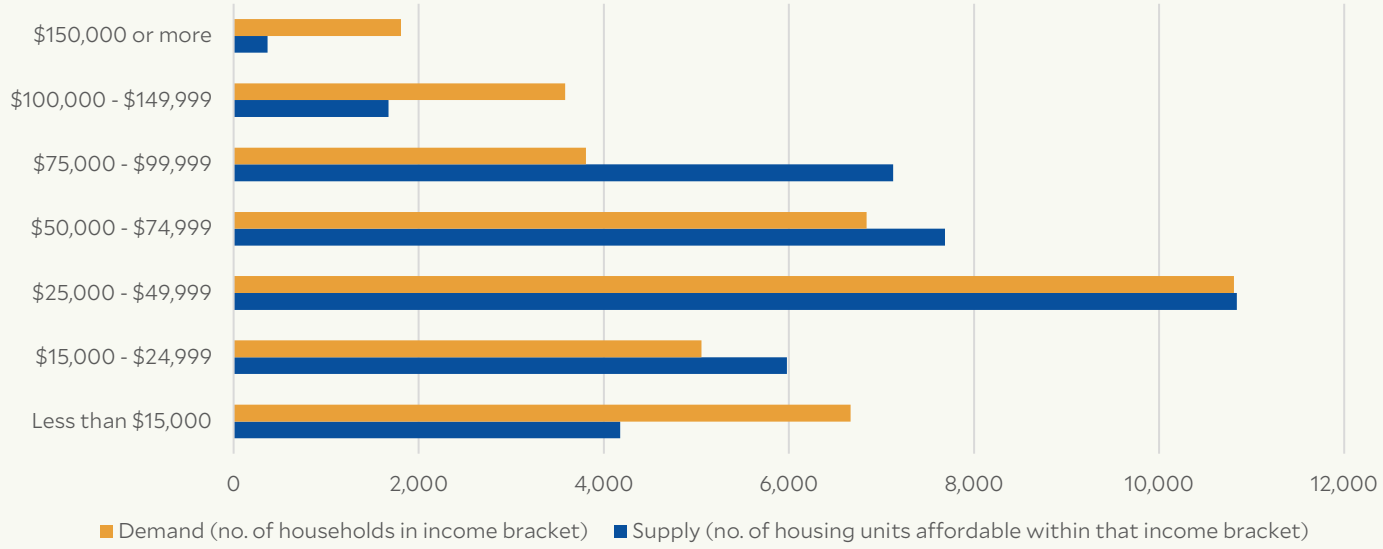


Appraisal gap: Difference between $200,000 estimated home construction price and mean home sales price, 2016 - May 2021, by census tract

Sources:
MLS data (2016 - May 2021)
St. Joseph Assessor

Notes:
All sales prices inflation adjusted to 2021 dollars
Data includes only homes marked "RESIDENTIAL ONE-FAMILY DWELLING ON A PLATTED LOT' in assessor records.
Data only includes private and traditional sales from MLS records.

Housing supply and demand by household income bracket



(For a detailed methodology, see Ch. 1). Source: ACS 5-year survey 2019

affordability in South Bend also do not address many well-documented personal and structural barriers to homeownership in the United States.

- Stakeholder engagement highlighted the need for high-quality "comp" houses to improve the local housing market.
  - Without prompting, all of these diverse stakeholders, despite having different perspectives on South Bend's housing system, broached the challenge of securing higher-value home appraisals. The depressed housing market in certain neighborhoods entails that even when people want to buy within these neighborhoods, low appraisals make it more difficult to secure a loan. A below-sales-price appraisal means that the borrower has to provide up-front cash to make up the difference between the (higher) sales price and the (lower) appraisal value. This is a large and common barrier to home purchases.

While South Bend's rent is lower than most larger cities', many residents still cannot afford it.

- Overall, the city's median rent is $854, which is affordable for a household earning the city's median income of $40,265. In 10 of the city's 43 census tracts, rents are higher than 30% of that tract's monthly median household income, signaling that they are not affordable. For example, Tract 17 has a median rent of $575—much lower than the city's median—but a household earning the tract's MHI can only afford rent up to $480 per month.

There is an under-supply of affordable housing for lower-earning South Bend residents.

- Households on the lowest end of the income spectrum are the most squeezed. Per 2019 American Community Survey numbers, households earning less than $15,000 per year make up 18% of the city, but only 11% of the housing stock is affordable to these households. These households are forced to spend more on housing, while also competing for housing with families who are earning more. In addition, there are downward pressures on the housing market, as an under-supply of more expensive homes means wealthy households in South Bend are consuming part of the housing supply that would be affordable and otherwise available to earners at or around the city's median household income.

ARP funds alone can't solve all of the city's affordable housing challenges, but they can make a difference on a smaller scale.

- The city's ARP allocation for affordable housing in the 2022 budget is $6 million. Allocations in this report target $5.5 million to account for potential cost overflows.

- The $5.5 million can have an important yet limited impact.
  - It cannot enable a down-to-the-studs renewal of the city's 3,000+ vacant properties.
  - Within budget, ARP funds can help enable building around 50 housing units—either apartment units or standalone homes—while the city has a roughly 2,500 housing unit supply shortage for its lowest-income residents.
- 150 bedrooms in 50-something new homes may not have a visible, noticeable effect if disbursed evenly across the city, but they can have a visible effect on a smaller neighborhood. Additionally, large-scale development on a large vacant parcel can enable economies of scale for homebuilders, minimizing costs.

South Bend planning staff and researchers deliberated and vetted three scenarios for how the ARP money could be spent.

- These **ARP allocation scenarios were not plans to allocate funds,** but were designed to investigate and explore the future effects of potential ARP investment decisions.
- To aid in scenario creation, researchers developed a pro forma model, similar to one used within the real estate industry, to estimate how much housing the ARP allocation could build or renovate. The model used defensible assumptions for financing, interest rates, construction costs, and monthly affordable housing costs. This exercise assumed ARP funds would be used mostly as down payments for construction loans or rehabilitation.
- There were some key challenges and points identified from the scenarios.
  - Building housing for the lower-earning residents means that, generally, less housing can be built. More subsidy is needed for a larger down payment to assure monthly construction loan repayment costs are within the monthly affordability means of these residents. This means more money gets spent up front on a down payment, and therefore the ARP subsidy cannot help build as many units.
  - Outside equity can help leverage the ARP allocation to build more affordable rental homes, which raises the importance of securing outside funds.
  - A mix of market rate and affordable units can help a low-income rental development be more financially viable, since rent from market-rate units help meet loan servicing costs.
  - Vetting the scenarios helped improve the draft pro forma model.
- Findings from this investigation helped inform the recommended options presented in the final chapter.

A key choice for decision-makers is whether to spread the ARP allocation or go "all in."

- Using the lessons from the scenario-building process, and employing an improved pro forma tool, this report concludes with three recommended options for the ARP funds.
  - One is called "a little bit of everything" which adds 142 bedrooms and has a mix of very affordable rental housing, moderately affordable owner-occupied housing, and rehabilitation funds, which are not accounted for in the additional bedroom count. The majority of bedrooms are in standalone single-family homes.
  - The second is called "go all in," and attempts to build as much extremely affordable rental housing as possible (144 bedrooms total, predominately in two-bedroom sixplex units as this was the most cost-effective option).
  - The third is to "stick to the budget," which follows the 2022 proposed budget for the allocation.
- South Bend has existing neighborhood plans that could provide useful insights in spending the ARP funds. Prior plans may identify useful sites for ARP-funded housing developments. For example, the Lincoln Park neighborhood plan identifies "neighborhood nodes," or central points within the neighborhood that can be focal points for regeneration. Additionally, the *Vacant and Abandoned Properties Task Force Report* from 2013 divides the city in the four different types of real estate markets, each of which has unique challenges. For example, city decision-makers may choose to invest only in "revitalization" or "reinvestment" areas, per that plan.
- Other final recommendations include exploring rent-to-own programs for the properties that are built and taking measures to ensure affordable owner-occupied homes built through this program are not quickly used for profit.

Introduction

Background

The Biden administration passed the American Rescue Plan Act (ARP) in March 2021, which sought to stimulate the economy in COVID-19's wake. The act, which most notably authorized $1,200 stimulus payments to qualifying individuals, also allocated $65.1 billion to local governments, of which South Bend received $45.2 million. South Bend allocated $6 million for housing—housing financing, housing repair, and home buying assistance—without estimating specific targets or tranches.

To inform how they allocate funds, City of South Bend officials contracted with the Kinder Institute for Urban Research (KIUR) at Rice University in Houston, Texas. This study represents the findings from this joint research project.

For **Phase 1**, researchers assembled diverse data sources to describe South Bend's housing system: its markets, affordability (or lack thereof), vacancy, and home quality.

A second key data source came from stakeholder input. Roughly 20 local stakeholders outside of the city government were consulted in December 2021 by KIUR and city staff. These representatives from community groups, the for-profit real estate industry, the housing finance sector, and the nonprofit affordable housing sector all provided insight to the challenges of South Bend's housing sector.

Key challenges identified from stakeholder interviews included securing favorable appraisals, securing mortgages for lower-income buyers, and managing high-quality yet affordable rental properties.

In **Phase 2**, a cost- and revenue-calculating model was created to help estimate how far the city's ARP funds could go in building and renovating affordable housing, specifically by helping close the gap between construction costs and what South Bend residents can afford.

The resulting product, which was similar to a pro forma model typically used in the real-estate development sector, showed how many units could be built according to different affordability estimates (i.e., if they are affordable to households which have "extremely low incomes," "very low incomes" or "low incomes", defined as 30%, 50%, or 80% of the area's median income, respectively).

This pro-forma model revealed the tradeoffs South Bend faces in spending the ARP housing money.

For example, building units that would be affordable to extremely low-income South Bend residents would entail spending more ARP funds per unit, because more ARP funds would be needed to close the gap between construction costs and what a resident could afford. Fewer units could be built overall.

On the other hand, the ARP allocation could help build more units if the units were affordable for low-income or very low-income residents. This choice risks leaving behind the lowest earning South Bend residents and communities. Chapter 2 describes these tradeoffs, and others, indepth.

These tradeoffs were central to the development scenario exercise completed in March 2022. For that exercise, project staff used the pro forma model to create three different scenarios for how the ARP funds could be spent on housing.

Creating the scenarios achieved three purposes. First, presenting hypothetical development scenarios to city staff brought to the forefront certain barriers to proposed projects, such as available land, or overhead costs for rehabilitation. Second, the scenarios helped determine just how much housing could be built with

Photo courtesy of City of South Bend, Indiana Department of Community Investment

the ARP funds, which helped city decision-makers understand the scope and potential for the investment. Third, the scenario development process helped hone the pro forma model, ensuring that the most useful feasible tool would be delivered to the city at the end of this study.

The scenarios developed and included in this report were shared with South Bend staff in March 2022.

Phase 3 was the culmination of this report, employing findings from the scenarios to present options for how the money could be spent.

These recommended options are *not* explicit instructions to invest in certain South Bend communities over others. Rather, they are proposals for spending the ARP allocation, and make explicit the tradeoffs involved with certain investment decisions.

One recommended option is to "go all in", using the funds to subsidize a developer to build a larger-scale extremely affordable housing development on a single site with ample vacant land.

Another recommended option is "a little bit of everything" subsidizing a developer to build a variety of affordable housing at different affordability levels in smaller, scattered parcels.

Finally, a third recommended option is to "stick to the budget," which describes a plan that follows the city's 2022 proposed budget for the ARP fund allocation.

As the city finalizes its decision, South Bend sits on many valuable neighborhood plans that have been written in the last decade, and staff are strongly encouraged to consult prior neighborhood plans in order to identify sites for investment.

Chapter 1: Existing Conditions: South Bend's housing is inexpensive yet out-of-reach for many

Summary

The cost of buying an existing home and the cost of building a new home in South Bend are different, with new construction being unaffordable to many residents.

- In almost every single census tract in the city, a median-income-earning household can afford to buy an existing home.
  - A house is considered "affordable" if monthly costs are less than 30% of the geography's monthly median household income (MHI).
  - Many South Bend homes are older, which contributes to lower prices.
- In contrast, for most neighborhoods, new home construction costs are much higher than the average home sales price, which disincentivizes builders from building in these places. This gap is called the "appraisal gap" in this report.
- Buying a newly constructed home—potentially costing about $200,000—is out of reach for median income households in every South Bend census tract but one.

Even in neighborhoods with very low rents (<$600), many residents still cannot afford a lease.

- In about one quarter of South Bend census tracts (10 of 43), rent exceeds 30% of the tract's monthly MHI. These tracts are geographically concentrated south and west of downtown.

There is unmet demand for homes.

- Existing market studies estimate that many of South Bend's central neighborhoods can absorb around 2,000-2,500 new units over a 5-year period.
- Despite this demand, only 121 of the roughly 6,000 home sales since 2016 have been for homes built in the past decade.
- Currently, the largest under-supply of homes is for the lowest-earning households and highest-earning households.

There are some (cautiously) positive signs for the future:

- Trends point to increased sales prices:
  - While the foreclosure crisis hit South Bend particularly hard, home prices have mostly recovered since the Great Recession, with the exception of certain western neighborhoods.
  - COVID-19 has increased home sales prices.
  - While good for building equity, and the ability to build more units, increasing prices may risk putting home ownership out of reach for some South Bend residents.
- Vacancy appears to be *decreasing* in many challenged neighborhoods.

Another positive sign: Prior plans and market studies evidence that South Bend has strong housing demand.

- Neighborhood plans, produced by city planning staff, identify areas of potentially transformative investments within certain South Bend neighborhoods.

Understanding the gaps: South Bend home prices, home affordability, and home construction costs

Homeownership and home sales

One of the central challenges of South Bend's housing market, which is shared by other Rust Belt cities, is that many for-profit homebuilders decide not to invest in central city neighborhoods. Low home sales prices suggest a depressed local market, which discourages homebuilders from making an investment.

The first question to answer: What exactly is the going price for a home in South Bend across its many neighborhoods?

The citywide average single-family home sales price, using data from 2016 through May 2021, was $104,106 (inflation-adjusted to 2021 dollars).

This price reflects the average of 5,998 home sales from that period, only for sales marked "traditional" or "private" in Multiple Listing Services (MLS) data, which excludes the roughly 600 foreclosure sales, trades, estate settlements, auctions, and other less common property transfer types from the same period. All home sales for less than $100 were also eliminated. This analysis only includes sales on parcels marked as "residential one-family dwelling on a platted lot" within local assessor records, eliminating sales on commercial, industrial, or multifamily properties.

In many neighborhoods west of the river, homes sell for less than $50,000, and citywide home prices are mostly around $100,000. When compared to sales costs in larger metros like Chicago or Houston, these prices are low.

Can South Bend residents afford a home in their city? In most neighborhoods, they can.

The homeownership affordability gap is calculated by estimating monthly housing costs for the average home sales price in each census tract, and comparing these estimates to the MHI for that tract.[3] Figure 2 shows that across the city (except in some central areas), residents can afford to buy homes in their neighborhood. This is largely because in many parts of the city, an average home costs less than $100,000.

This map, and the finding that most homes are theoretically affordable to South Bend residents, omits certain important factors. First, while someone's income is within the affordability threshold, homeownership may be out of reach because of personal and structural factors, including unstable work histories caused by deindustrialization, or racial/ethnic inter-generational wealth disparities influenced by past racist lending practices, among other reasons. These factors shape a person's ability to have a good credit score, build savings for a down payment, or have funds for future home repairs. Each of these factors can affect the likelihood a bank will issue a mortgage.

Second, being able to afford a home is not the same as being able to afford a *higher quality* home. Low initial home prices may mask a home's need for repairs, making the true cost of buying the home much higher than the price suggests.

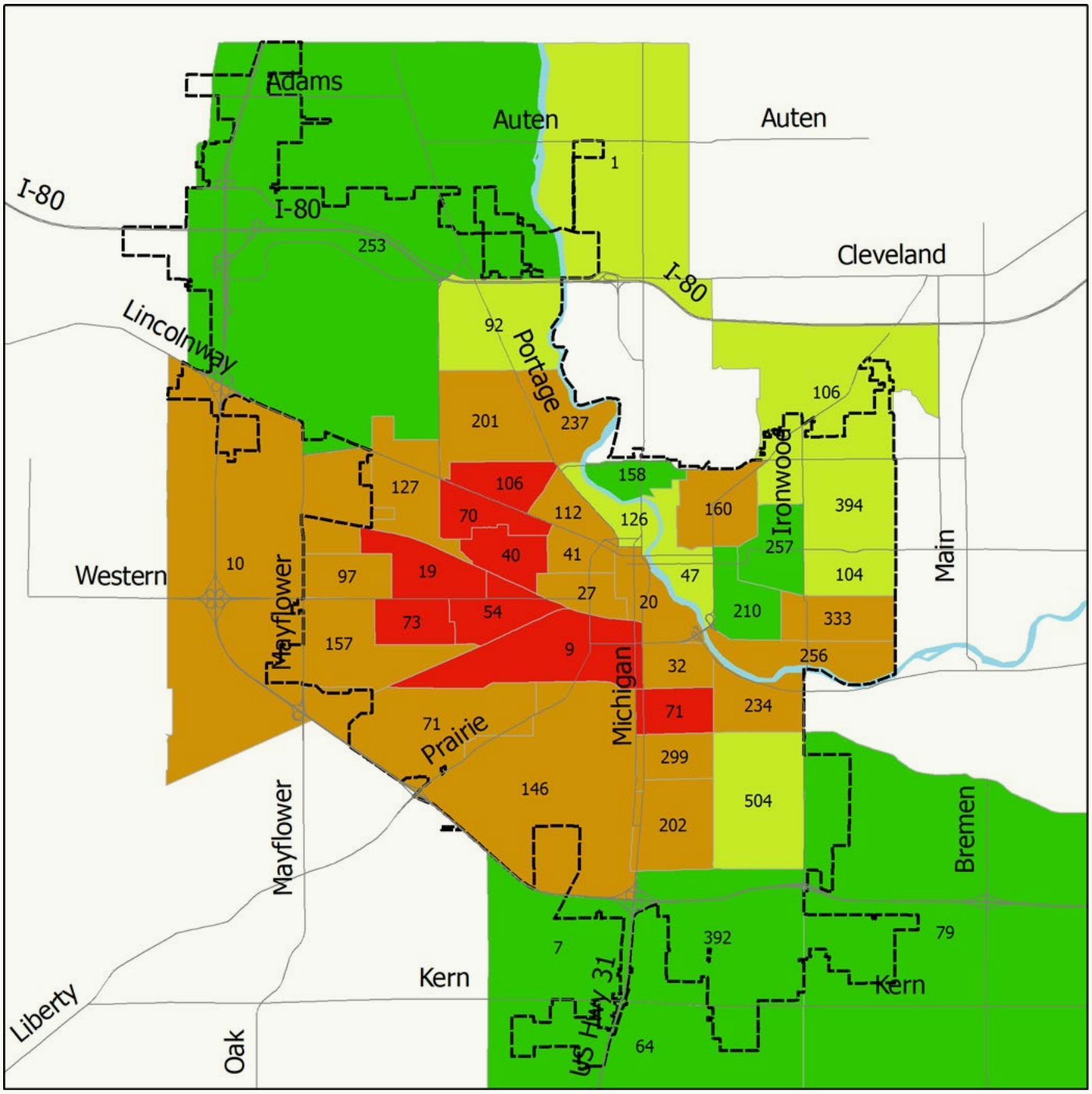
Given the relative affordability of existing homes, but unknown costs of necessary repairs, another way to think about housing in South Bend is to ask if residents can afford a newly constructed home.

A different affordability gap calculation can help answer this question by taking the difference between what a household earning the median household income could afford and the estimated monthly housing costs on a hypothetical $200,000 new home (which is the estimated construction cost for a home within a larger subdivision).

The results of this calculation show median earner South Bend residents cannot afford newly constructed homes. The estimated monthly housing costs for a

3 A detailed methodology: Housing is considered affordable when it costs less than 30% of monthly income. To determine tract-specific affordability, first, each census tracts 30% median household income (MHI) was calculated. Next, monthly housing costs were taken from the tract's mean home sales price (source: MLS data) with the assumption that a buyer purchasing that house had a 4.5% yearly mortgage interest rate, property insurance and tax rates at 1% of home value, a mortgage insurance rate at 0.85%, and a 3.5% down payment (per FHA regulations). The difference between these estimated monthly housing costs, and 30% of monthly income based on the tract's MHI, is the affordability gap. This calculation does not account for upkeep or utilities costs.

FIGURE 1 **Home sales prices and volumes by census tract**



Average single-family home sales price (inflation-adjusted), 2016 - May 2021, by census tract, with total sales counts

0 0.75 1.5 3 Miles

South Bend city limits

Average sales price

- Less than $50,000
- $50,000 - $100,000
- $100,000 - $150,000
- More than $150,000

54 Total number of sales

Sources:
2019 ACS 5-year estimates
MLS data, 4 January 2016 - 21 May 2021

Notes:
Data are ONLY traditional and private sales in South Bend city limits.
Data are only parcels marked "RESIDENTIAL ONE-FAMILY DWELLING ON A PLATTED LOT" in assessor records.
Inflation-adjusted to 2021 dollars.

$200,000 home ($1,452) exceeds what a local median-income earner can afford ($1,006). Even when looking at differences in earnings across the city's neighborhoods, only a few can afford a newly constructed home at $200,000. For a hypothetical newly constructed home, many South Bend residents find themselves priced out of ownership.

The affordability gap for new home construction throughout most of the city has led some for-profit builders to infer that few local buyers exist despite the market studies cited later, which show demand for new homes.

Location is essential to how appraisers value homes, and neighborhood-level home markets help inform the decision to site new construction. Thus, in addition to calculating the gap between what residents can afford and the cost of a new home, it is also valuable to calculate the gap between prices on the existing home market and the cost of a new home.

The difference between home construction costs and existing home sales prices in South Bend's census tracts is referred to as the "appraisal gap." Displaying the appraisal gap shows the difference between current housing prices and construction costs, and helps policymakers and the public understand the scale of the subsidy needed to incentivize new home construction. The appraisal gap also provides an estimate of how much current homeowners could invest in renovations before the purchase of a new home would be the more economical choice. In this way, the appraisal gap can also guide decisions on how much could be put toward rehabilitation subsidies from the ARP funds. An important caveat is that the dollars put into a renovation do not equal the dollars added to that home's value, particularly within weaker housing submarkets. Lastly, displaying the gap can help residents understand the general price differences between new construction and existing sales prices at the neighborhood scale.

An appraisal gap exists throughout most of South Bend's neighborhoods, with the largest gaps in the central and western neighborhoods of the city (Figure 4).

Appraisal gaps were calculated with sales data through May 2021. This analysis does not reflect continued increases in home sales prices that occurred more recently. As a result, the appraisal gap in South Bend is likely smaller now (Fall 2022), but at the same time, South Bend's affordability gap has likely increased.

Home renting and renters' affordability

The prior affordability analysis focuses on the homeownership market. However, roughly 40% of South Bend households are renters.

South Bend follows a common trend: renters occupy a larger share of the households in the urban core, while homeowners dominate the suburbs (Figure 5). However, South Bend has a large "middle" between the inner- and outer-city where there is not a clear majority of renters or homeowners. Even some of the areas near Notre Dame's campus still have many owner-occupied housing units. In these and other older neighborhoods, zoning largely exists to support diverse infill housing stock.

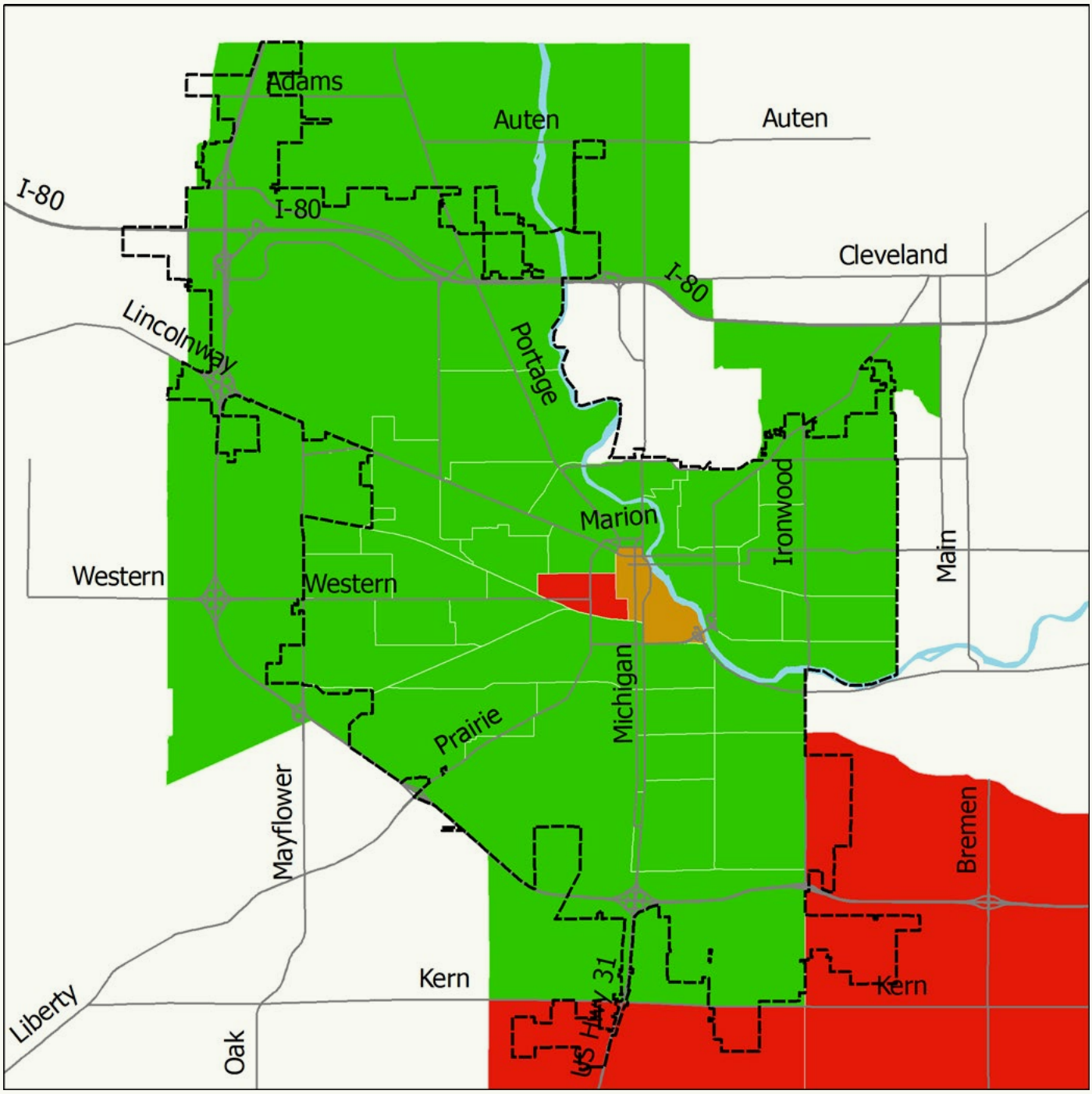
Higher-rent areas are common east of the river, particularly near campus (Figure 6). High-rent communities can also be found in the southeast and west, including the less wealthy Southeast and Lincoln Bendix neighborhood areas. Despite some areas having higher rent, most tracts throughout the city do not have an affordability gap for renters (Figure 7). The affordability gap for renters is the difference between 30% of a tract's median household income and that tract's median rent.

Still, there are some areas with large affordability gaps, even in areas where the median rent is relatively low. For example, the tract containing the St. Casimir neighborhood (Tract 27)[4] has a median rent of $826 (lower than the citywide median of $851), but there is still a large affordability gap in this neighborhood because of the lower incomes of its residents.

Some neighborhoods have high rents but relatively low home sales values. For example, the tracts containing some southeastern neighborhoods and parts of Lincoln-Bendix and Kennedy Park have relatively high rents (more than $900) but relatively affordable homes (less than $50,000, per Figure 3). For these neighborhoods, rent is more than the cost of a mortgage.

4 For more information on census tracts, see St Joseph County GIS: https://sjcgis-stjocogis.hub.arcgis.com/

FIGURE 2 **Ownership affordability gap by census tract**



Can residents afford their tract's average home?:
Affordability gap (30% tract median monthly household income minus estimated monthly payments on a house valued at mean sales price for tract)

0 0.75 1.5 3 Miles

Sources:
2019 ACS 5-year estimates

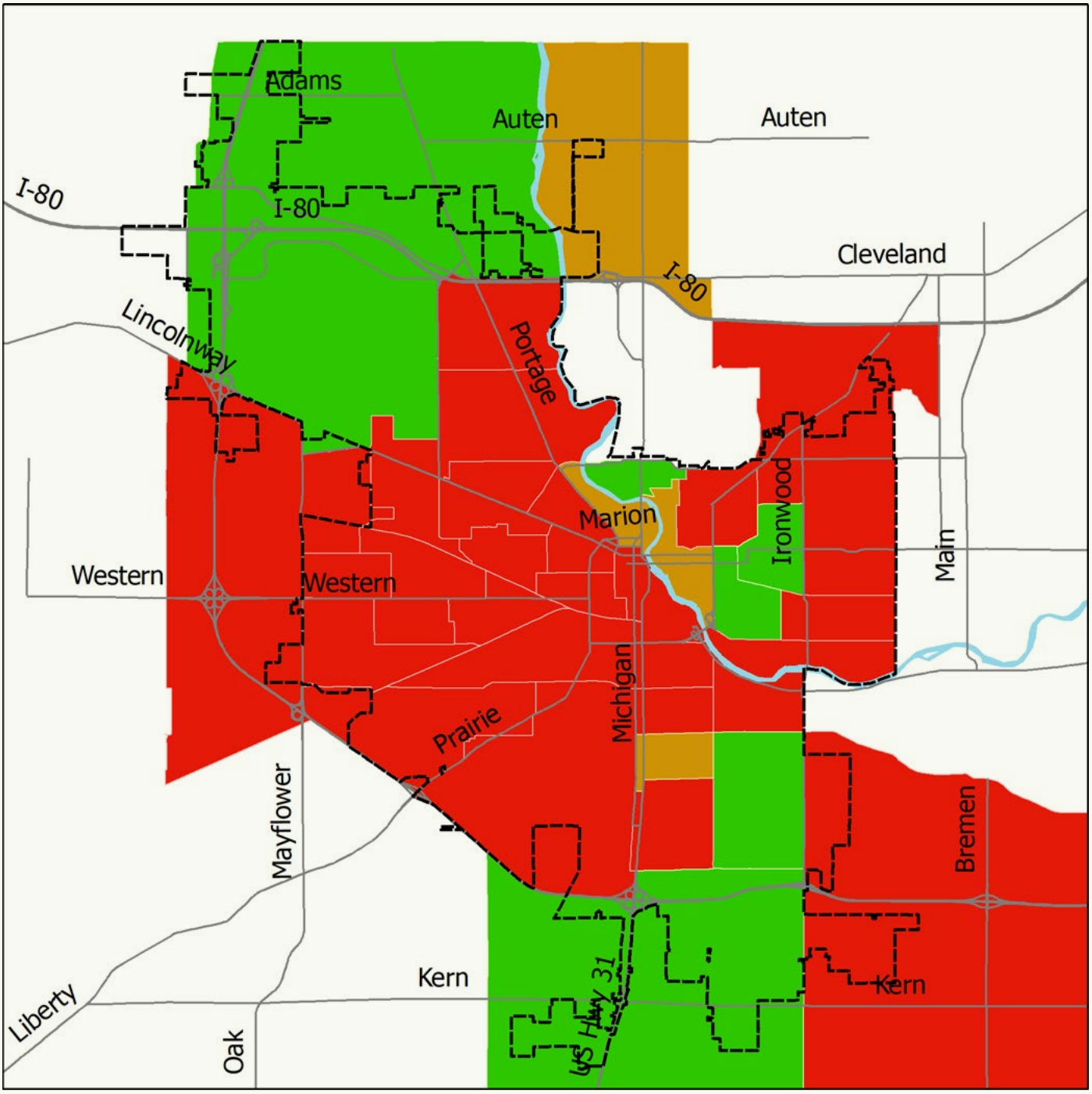
South Bend city limits

Affordability gap

- More than $200 per month over affordability
- $0 - $200 per month over affordability
- No affordability gap

Notes:
For sales assumptions see notes for Figure 1
Assumes yearly mortgage rate of 4.5%
Property insurance rrate of 1% of home value
Property taxes at 1% of home value
Mortgage insurance rate of 0.85% of home value
Down payment of 3.5% (FHA loan rate)

FIGURE 3 **Affordability gap for newly constructed $200,000 home by census tract**



Can residents afford a $200,000 home?:
Affordability gap (30% tract median monthly household income minus estimated monthly payments on a house valued at $200,000)

0 0.75 1.5 3 Miles

Sources:
2019 ACS 5-year estimates

South Bend city limits

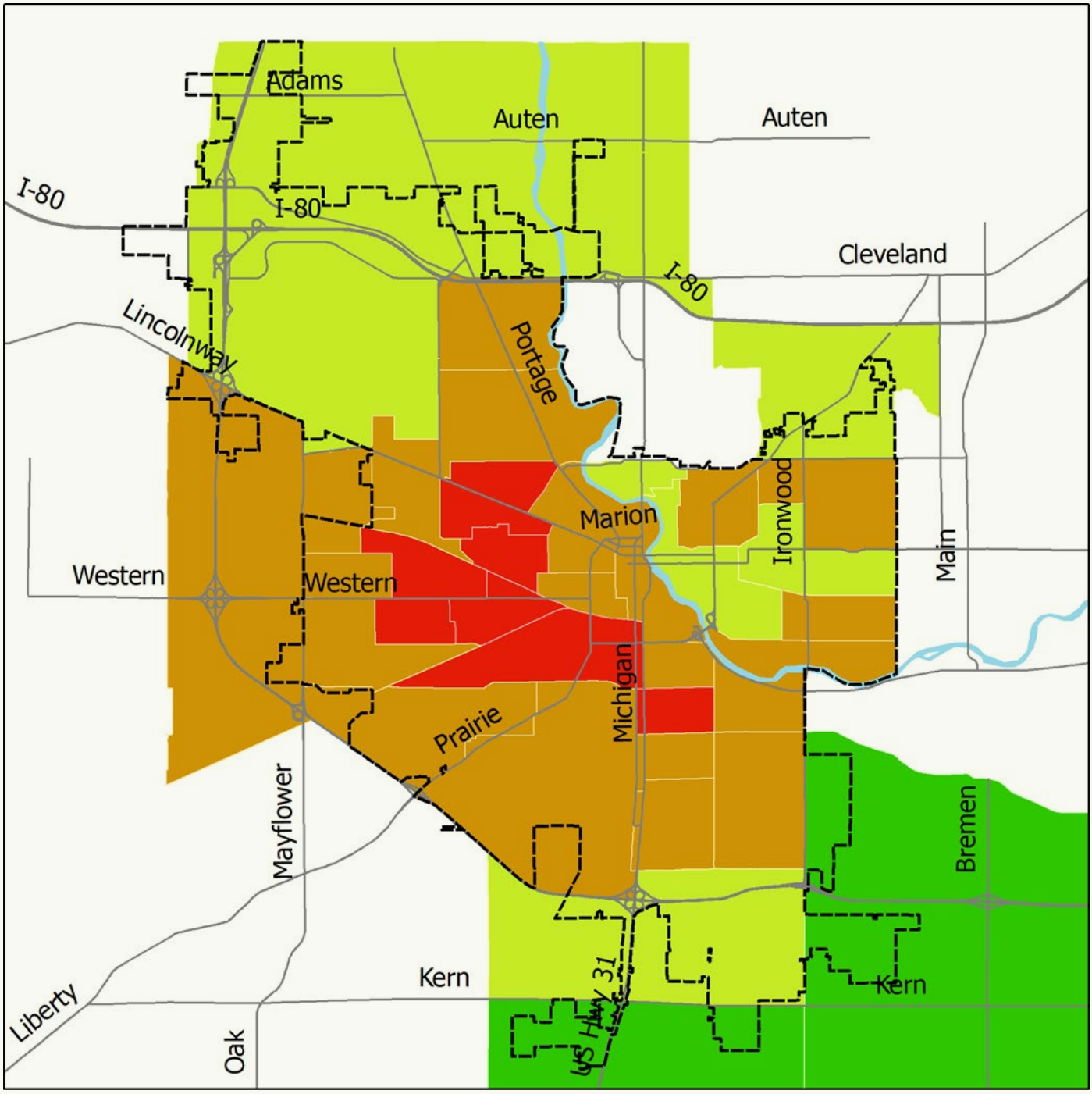
Affordability gap

- More than $200 per month over affordability
- $0 - $200 per month over affordability
- No affordability gap (residents can afford home)

Notes:
Monthly cost estimate at $1,453 for a $200,000 home
Assumes yearly mortgage rate of 4.5%
Property insurance rrate of 1% of home value
Property taxes at 1% of home value
Mortgage insurance rate of 0.85% of home value
Down payment of 3.5% (FHA loan rate)

FIGURE 4

Appraisal gap: Difference between new construction costs and existing home sales prices by census tract



Appraisal gap: Difference between $200,000 estimated home construction price and mean home sales price, 2016 - May 2021, by census tract

0 0.75 1.5 3 Miles

South Bend city limits

Appraisal gap

- More than $150,000
- $75,000 - $150,000
- $0 - $75,000
- Less than $0 (no gap)

Sources:
MLS data (2016 - May 2021)
St. Joseph Assessor

Notes:
All sales prices inflation adjusted to 2021 dollars
Data includes only homes marked "RESIDENTIAL ONE-FAMILY DWELLING ON A PLATTED LOT' in assessor records.
Data only includes private and traditional sales from MLS records.

FIGURE 5 **Predominant housing tenure type (owner/renter) by census tract**

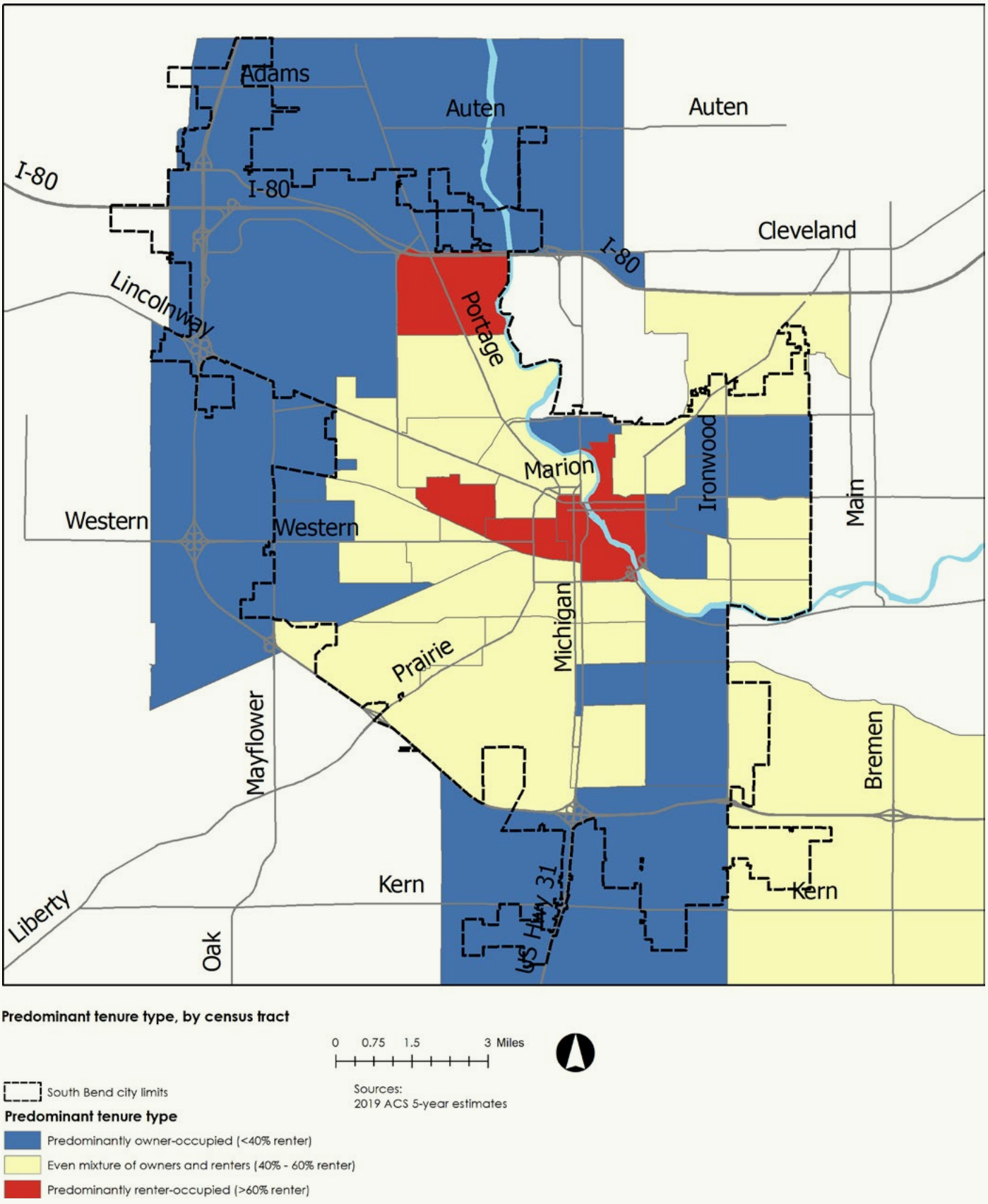


FIGURE 6 **Median rent by census tract**

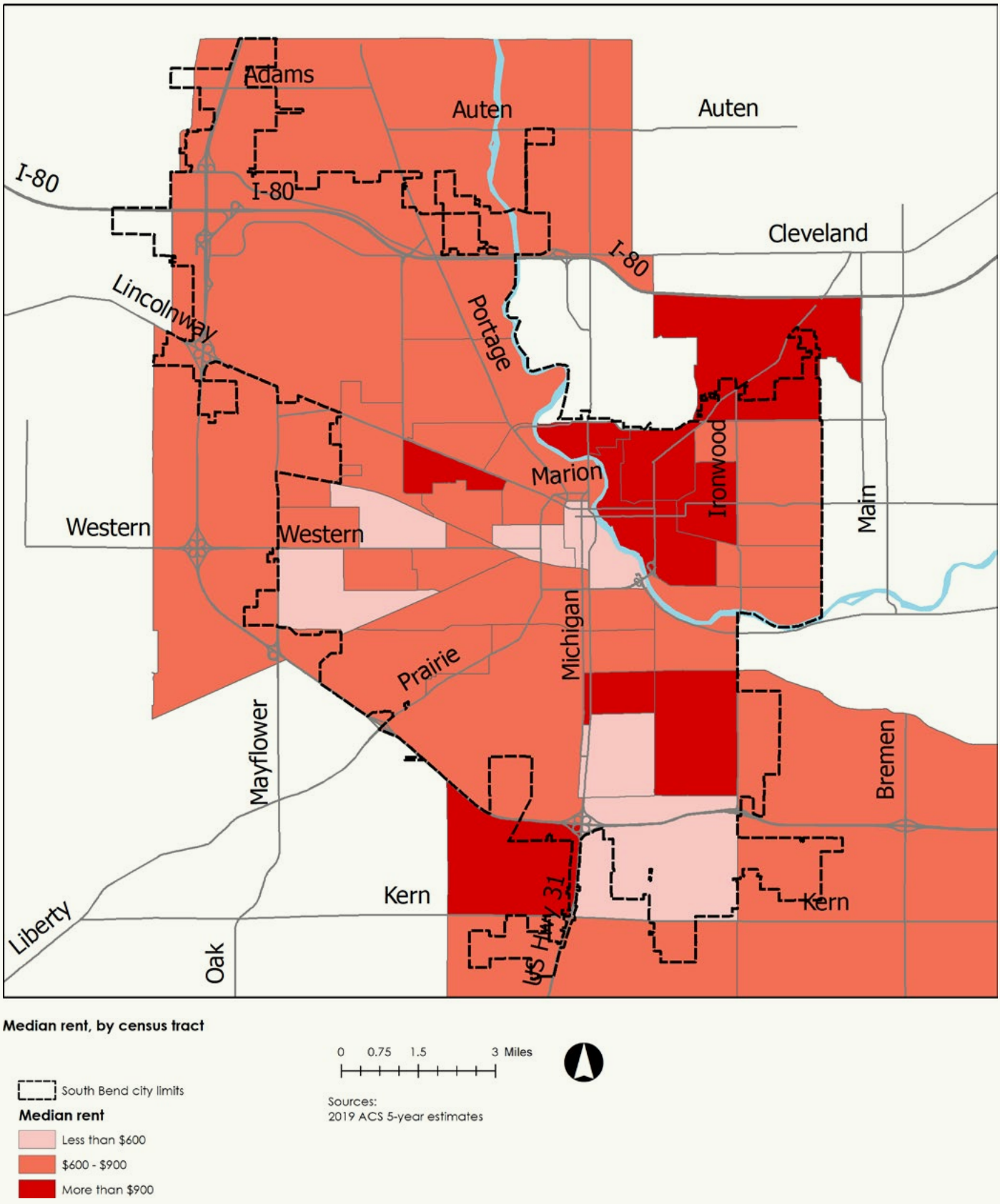
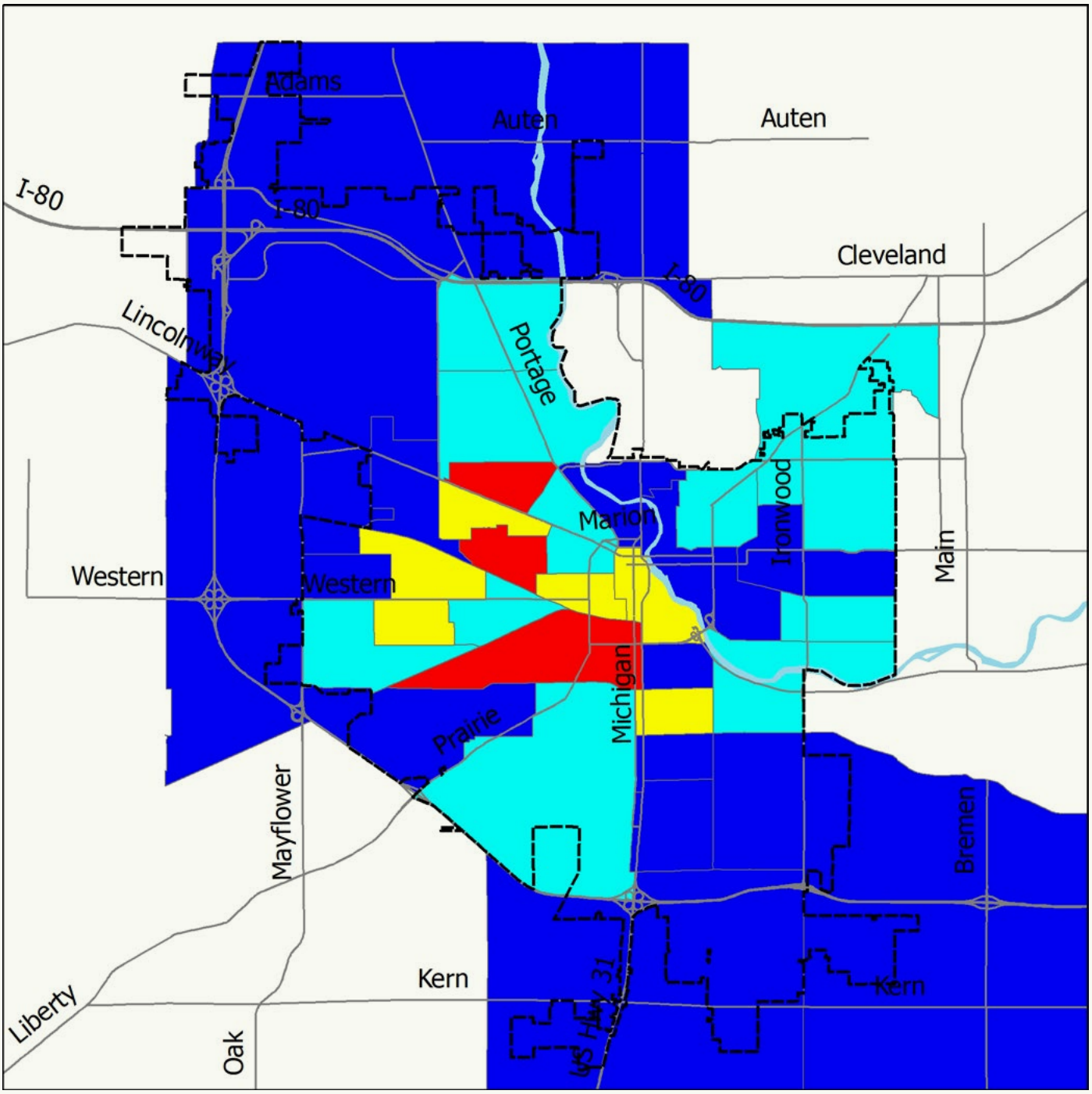


FIGURE 7 **Renter affordability gap by census tract**



Renter affordability gap (30% affordability), by census tract

0 0.75 1.5 3 Miles

South Bend city limits

Renter affordability gap

- Pays more than $200 beyond what's affordable
- Pays $0 - $200 beyond affordable
- Has $0 - $200 left over (no affordability gap)
- Has more than $200 left over (no affordability gap)

Sources:
2019 ACS 5-year estimates

Notes:
To calculate affordability gap by census tract, find the tract's median household income and divide it by 12, then multiply it by 0.30. Calculate the difference between that number and the tract's median rent.

Housing supply and demand

The previous subsection highlighted the gaps between the housing people can afford and the housing that actually exists throughout South Bend. It shows large homeowner appraisal gaps that may make home builders less interested in investing in certain neighborhoods.

This next subsection disaggregates existing housing supply by what is affordable to different income brackets. By counting households within certain income brackets and calculating 30% of that income bracket's lower threshold, it is possible to determine the mismatch between the housing that's available and the population that can afford it.

The affordability picture in South Bend points toward two groups facing an undersupply of housing: the lowest earning South Bend residents and highest earning South Bend residents (Figure 8).

FIGURE 8 **Housing supply and demand by household income bracket**

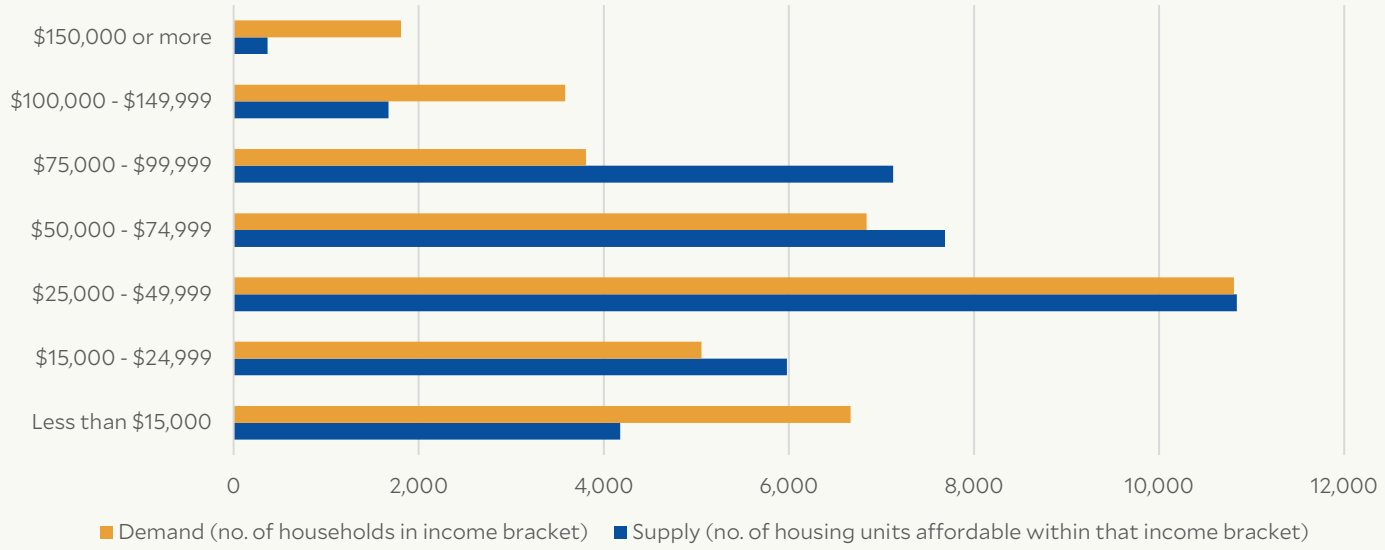


TABLE 1 **Housing supply & demand, by income bracket (highlighted rows with undersupply)**

Corresponding household income bracket	Housing costs	Supply (# of households paying this for housing)	Demand (# of households in this bracket)
Less than $15,000	Less than $300	4,177	6,665
$15,000 to $24,999	$300 to $499	5,978	5,054
$25,000 to $49,999	$500 to $799	10,841	10,810
$50,000 to $74,999	$800 to $999	7,687	6,841
$75,000 to $99,999	$1,000 to $1,499	7,127	3,807
$100,000 to $149,999	$1,500 to $2,499	1,673	3,581
$150,000 or more	$2,500 or more	368	1,810

Source: ACS 2019 5-year survey

Supply and demand was estimated using American Community Survey data.[5]

The households in the lowest income bracket, earning less than $15,000, represent about 18% of South Bend's households, but only about 11% of the city's housing stock is affordable to these earners. Because of the undersupply of affordable housing for lower earners, households earning less than $15,000 must compete for housing with higher-earning households or face becoming unhoused.

There is also an undersupply of more expensive housing in South Bend. Households earning more than $100,000 face a lack of housing supply and have the funds to outbid middle-income households for homes. Therefore, even if there is a relative "match" for supply and demand of housing for the middle income brackets, the undersupply of options for higher-earning households puts downward pressure on the rest of the housing market.

Positive signs, but some caution: recession recovery, strong sales markets, and decreasing vacancy

Despite home prices being relatively low compared to other cities around the country, prices in South Bend have been steadily increasing for more than a decade following the Great Recession. The 2013 *Vacant and Abandoned Properties Task Force Report* detailed the significant challenges faced by the city in terms of housing and foreclosure leading up to and during the housing market collapse around 2008. Between 2001 and 2007, the city experienced 6,777 foreclosures, according to the report. In 2000, there were 27,054 owner-occupied households in the city. While the city likely added more homeowner households during 2001-2007, the ratio of foreclosures to owner-occupied household count in 2000 suggests that a massive share of owner-occupied households in South Bend were foreclosed, somewhere in the range of 15%-20%. This count of 6,777 foreclosures also does not include the many foreclosures which happened after 2008, when the global economy cratered.

In 2019, South Bend had approximately 22,600 owner-occupied households in the city, about 4,500 fewer than in the year 2000.

Foreclosures have slowed down in the past 10 years. From 2016-2021, only 455 foreclosure sales were listed in MLS data, as opposed to close to 7,000 foreclosures from 2001-2007.

There are more low-cost foreclosure sales in the city's western areas, while the higher-priced sales are in the city's outskirts. Certain neighborhoods in the city's east and south have high numbers of foreclosures, and foreclosed homes with a high sale value. River Park, for example, had at least 29 foreclosures in one of its census tracts, and the homes generally sold for higher prices than those to the west. This may speak to the need for neighborhood stabilization, but with a different strategy than the western neighborhoods, where property values are more depressed.

Not many new homes have been built in the post-Great Recession era. In the study period in this report (2016 to May 2021), only 121 of the 5,998 home sales involved homes built in 2010 or later.

Across the city, these newer homes tend to be more expensive. Between 2016 and May 2021, homes built in 2010 or later sold for roughly $227,000, on average, while older homes sold for $102,000.[6]

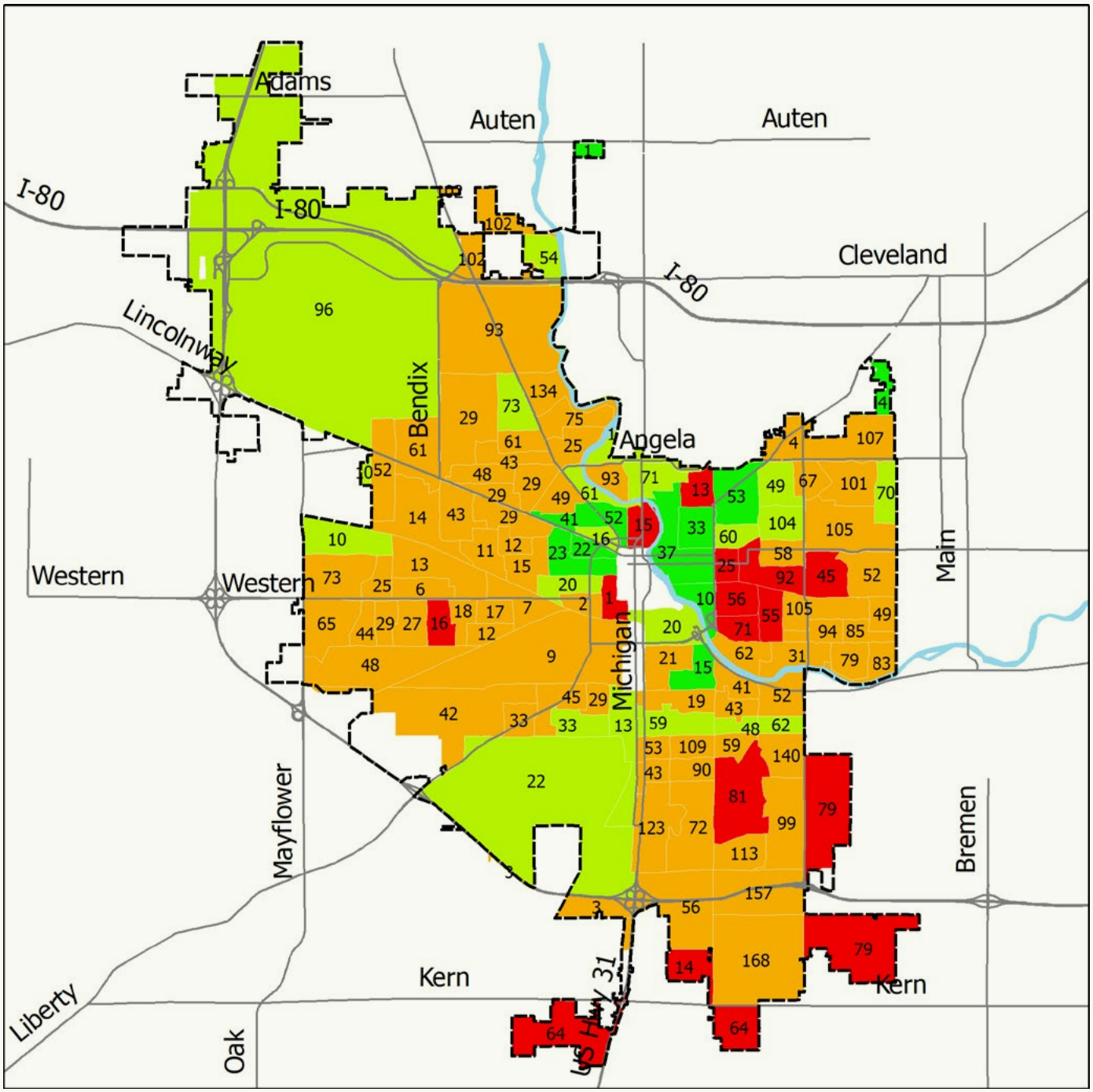
Housing prices have mostly recovered across the city since the Great Recession. Using inflation-adjusted home sales prices from 2007-2011 and comparing them to home sales prices from 2016-2021, most areas of the city have had their home prices return to their earlier levels with some parts of the central city exceeding earlier values (Figure 9).

Homes have increased in value the most in the Northeast and the Near Northwest areas, with areas northwest of downtown having the greatest price increases. While "good news" at face value, these price increases risk the area becoming unaffordable to current and potential future residents.

5 ACS data contain counts of households by income bracket, and counts of households by monthly housing expenses. To determine affordability, researchers used 30% of the bottom threshold of the income bracket (divided by 12, to determine monthly income) in order to deduce the cost of housing each household's income bracket can afford. This helped determined "demand": that is, the number of households at each affordability threshold. These counts were then aligned with the "supply", that is, the number of households paying different sums for their monthly housing expenses.

6 Note that this is not a hedonic estimate that accounts for other household characteristics that influence sales prices, such as size, number of bathrooms, garages, etc.

FIGURE 9 **Change in average home sales price by block group, 2007-2011 vs. 2016-May 2021**



Great Recession recovery: Change in average home sales price between 2007-2011 and 2016-May 2021, by block group (inflation adjusted to 2021 dollars)

South Bend city limits

Price increase, 2007-2011 and 2016-2021

- Prices have decreased
- $0 - $20,000 more
- $20,000 - $40,000 more
- More than $40,000 more

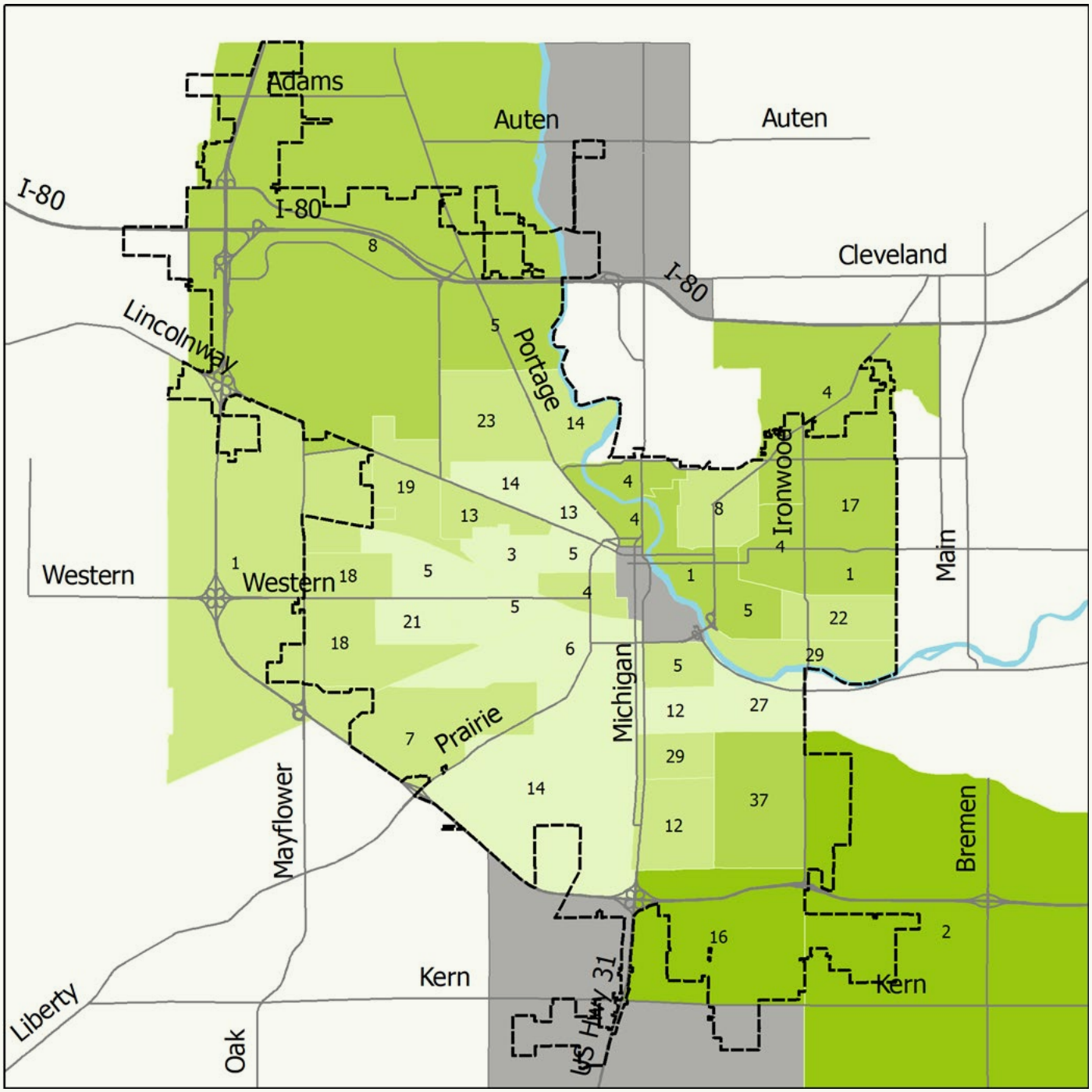
22 Total sales, 2016-May 2021

0 0.75 1.5 3 Miles

Sources:
City of South Bend Vacant and Abandoned Properties Task Force Report (2007-2011 data)
MLS (2016 - May 2021 data)

Notes:
All sales prices adjusted to 2021 dollars
Chloropeth shading is the result of subtracting 2016-2021 average traditional/private home sales from 2007-2011 average sales.

FIGURE 10 **Average foreclosed home sales price by tract, 2016-May 2021**



Average FORECLOSED home sales price, 2016 - May 2021, by tract (inflation adjusted)

South Bend city limits

0 0.75 1.5 3 Miles

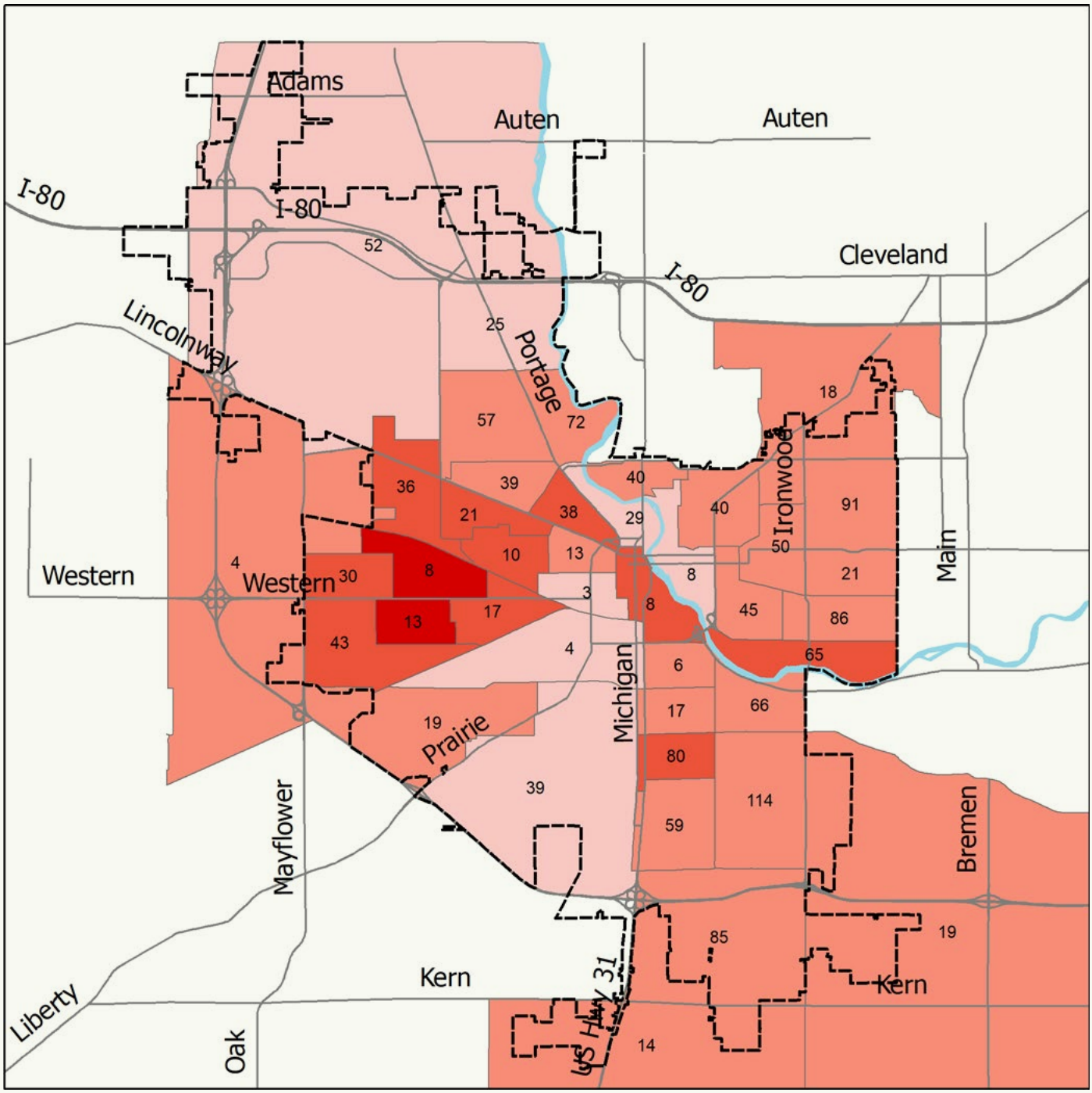
Average sales price

- Less than $25,000
- $25,000 - $50,000
- $50,000 - $100,000
- More than $100,000
- No recorded foreclosure sales
- 14 Total foreclosure sales

Sources:
MLS data 2016 - May 2021

Notes:
Inflation adjusted to 2021 dollars
Sales only for properties marked "RESIDENTIAL ONE-FAMILY DWELLING ON A PLATTED LOT" in assessor records.

FIGURE 11 **Post-COVID-19 increase in average home sales price from by census tract**



Measuring the COVID-19 price premium: percent increase in average home sales price, pre- and post-COVID-19 outbreak, by census tract

South Bend city limits

0 0.75 1.5 3 Miles

Percent increase

- No increase
- 0% - 25% increase
- 25% - 50% increase
- More than 50% increase

14 Number of post-COVID home sales

Sources:
MLS Data, 2016-May 2021
Notes:
Percent increase equals:
[Tract mean sales price for sales from 15 March 2020 to 16 May 2021] minus [Tract mean sales price for sales from 1 January 2016 to March 14 2020], divided by [Tract mean sales price for sales from 1 January 2016 to March 14 2020]
Assumptions from Figure 1 apply.

FIGURE 12 **Long-term vacancy (> 6 month) count by census tract, 2021**

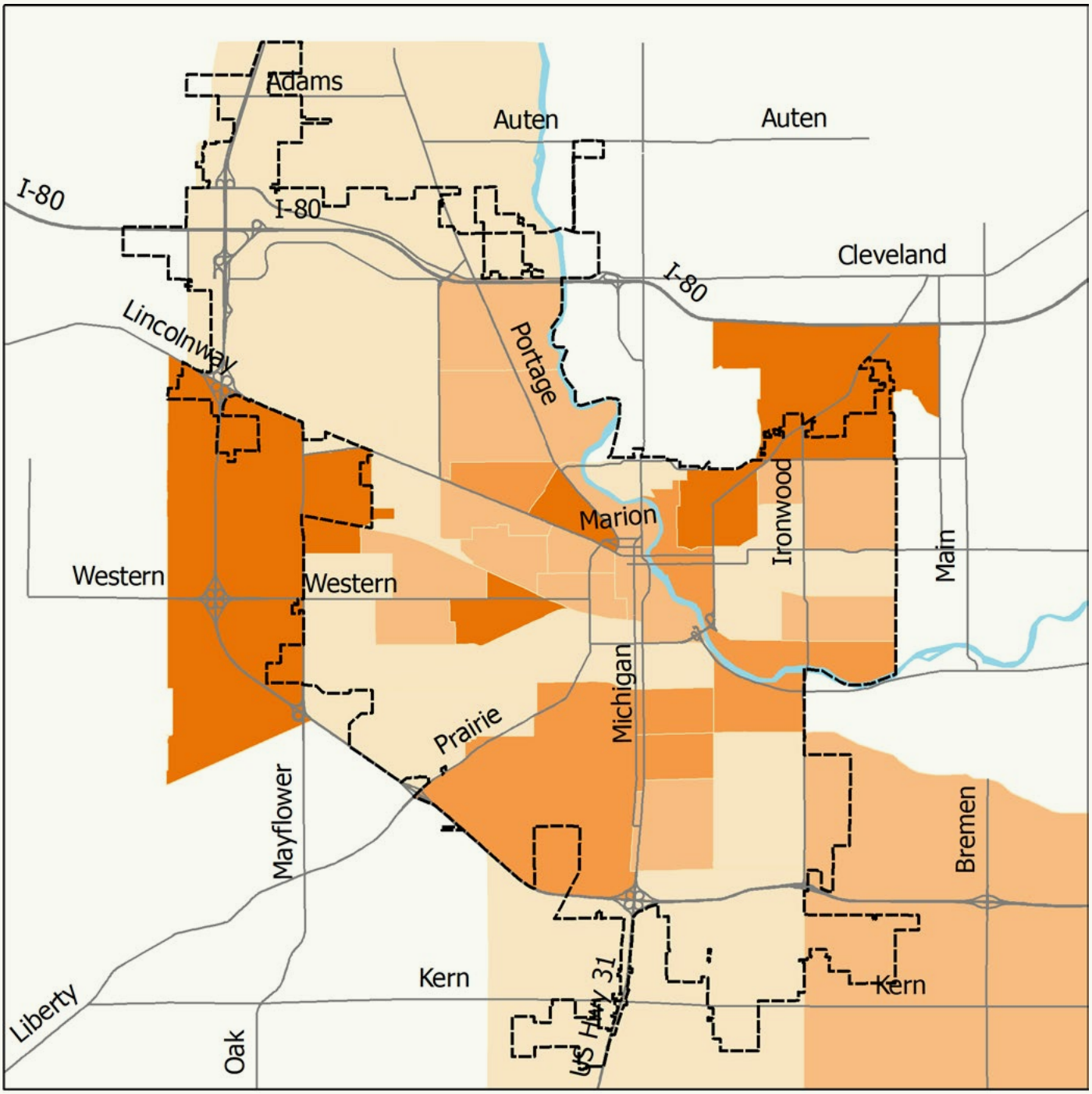
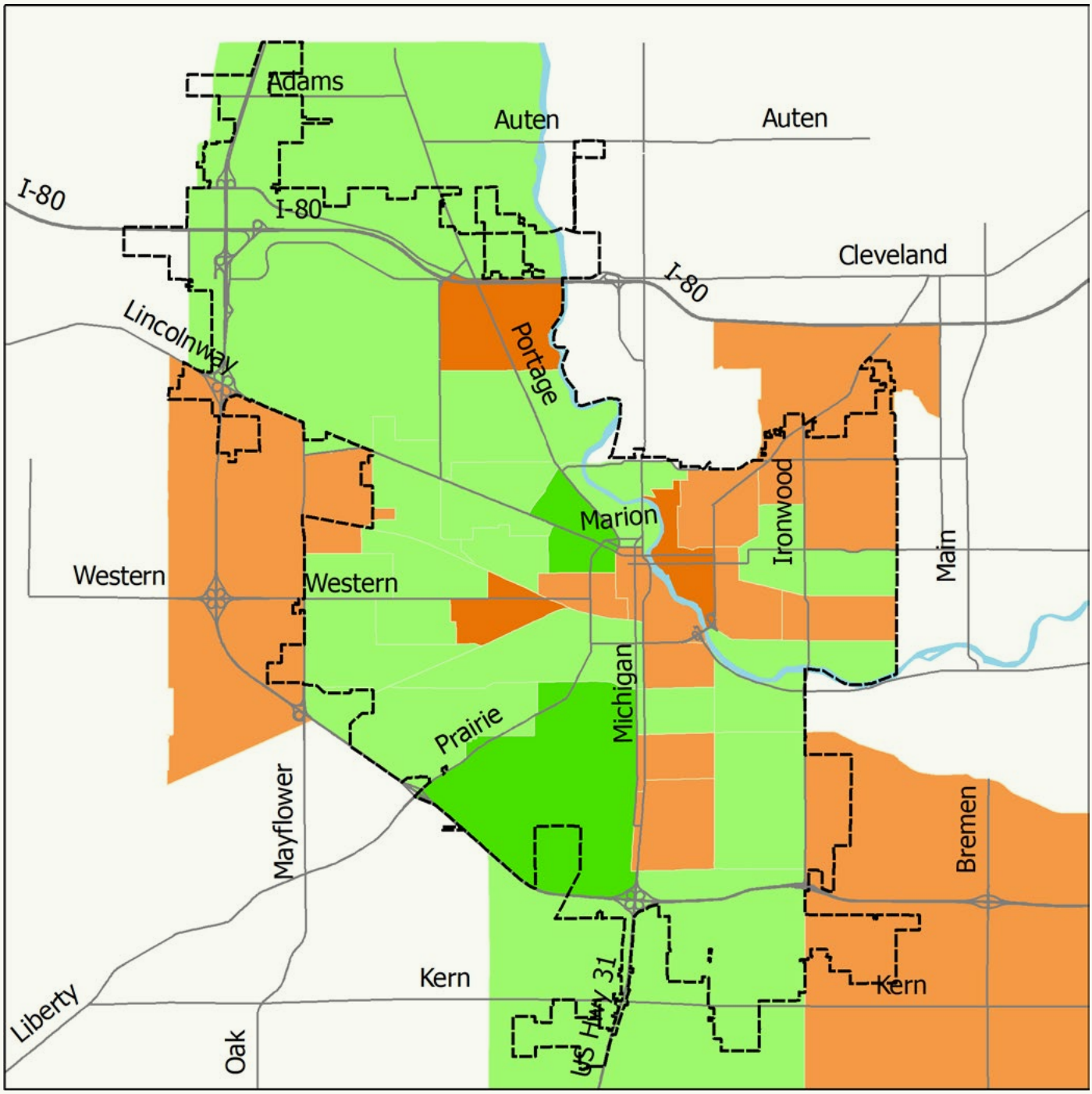


FIGURE 13 **Change in long-term vacancy count by census tract, 2017-2021**



Change in number of long-term (>6 month) vacant units, 2017-2021, by census tract

South Bend city limits

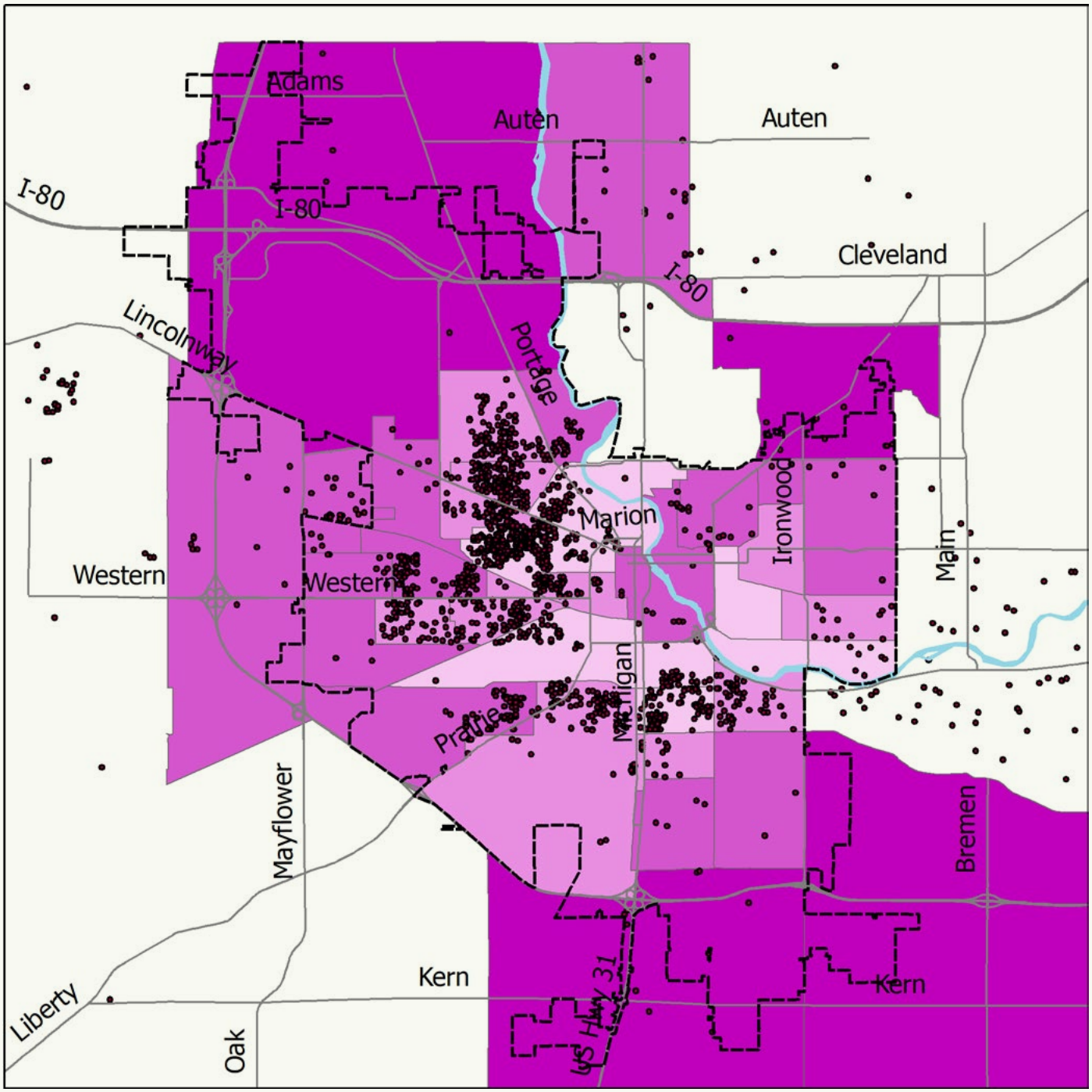
Vacancy change, 2017-2021

- Vacancy decreased by >50 units
- Vacancy decreased by 0-50 units
- Vacancy increased by 0-50 units
- Vacancy increased by >50 units

0 0.75 1.5 3 Miles

Sources:
2017, 2021 USPS vacancy data (residential only)

FIGURE 14 **Tax sale eligible properties and median year built, 2021**



Median year home built and tax sale eligible parcels

South Bend city limits

Tax sale eligible parcels

0 0.75 1.5 3 Miles

Median year built

Prior to 1940

1941 - 1960

1961 - 1980

After 1980

Sources:
2019 ACS 5-year survey
City of South Bend, October 2021

COVID-19 has increased home prices, though not everywhere. Citywide, home prices increased by about 4% from the pre- to post-COVID-19 period. Specifically, the average pre-COVID home sales price for the 2016-March 15, 2020 period was $103,073, while homes sold after the COVID-19 outbreak (March 15, 2020) went for $107,191, on average (both figures are inflation-adjusted to 2021 dollars).

The home price increase following the outbreak of COVID-19 was not uniformly distributed across the city (Figure 11). Price increases following COVID-19 have been largest in the city's western markets.

Sales volumes have generally been higher in the city's east and southeast. Southern neighborhoods like Erskine Park and Tyckenham Hills have also seen a particularly strong market, as has River Park. One point to investigate, outside the scope of this report, is examining who is buying these homes: investors or owner-occupants?

Vacancy remains an issue within South Bend, mostly in western neighborhoods, but there are likewise positive signs. United States Postal Service (USPS) vacancy data (Figure 12) can be used to analyze vacancy trends. USPS notes when mail cannot be delivered to residential addresses because of vacancy, and these can be aggregated to the census tract.

The largest number of vacancies can be found in western neighborhoods like Near Northwest, West Side, and Rum Village, as well as near the university campus. The census tracts containing the West Side and Southeast are notable because they have high vacancy counts and have not seen decreasing vacancies. Vacancy does not appear to be increasing in most of the city's older western neighborhoods (Figure 13).

According to USPS data, vacancy dropped dramatically in Near Northwest and Rum Village between 2017 and 2021. Decreases in vacancies can be attributed to a building being either occupied or torn down, and the high changes in vacancy count may indicate significant real estate activity in those areas.

The overall picture of vacancy in South Bend is important to capture because of the scope and severity of the issue. USPS data are a good source but are unable to differentiate between housing that is abandoned and housing that's only lived in part of the year. Tax sale data complement USPS data by helping distinguish between different types of vacant properties, between "newer" vacancies and old vacant properties where taxes have not been paid because of abandonment, speculation, or because a homeowner is not able to pay. Aligning tax sale data with neighborhood age data show the intersecting challenges of abandoned properties and home age.

Tax sale eligible properties are concentrated within South Bend's challenged neighborhoods in the west (see Figure 14). These areas also contained aged building stock which may be in need of significant repair or replacement, something which ARP funds can address.

Prior plans and studies: Unmet housing demand exists in central South Bend

Market studies

Prior analysis in this report illustrated the affordability gap, the appraisal gap, and other trends in South Bend's housing market.

Another series of studies, commissioned by the city in 2018 and 2021, have looked to understand the potential future demand in certain South Bend neighborhoods. All of these analyses and studies can help South Bend decision-makers direct ARP funds, and are used to inform this study's final chapter.

These prior plans and studies analyzed the residential market potential of diverse South Bend neighborhoods (see Table 2). Each plan forecasted annual demand for both existing and new housing, dividing housing type and demand by income strata, tenure, and building type.

Taken together, the studies forecasted a demand for roughly 1,400 to 1,715 new units (both rental and owner-occupied) in the centrally located and stronger real-estate markets in Downtown, East Bank, and Northeast. A slight majority of this projected demand was expected to be rentals. Even the weaker real estate markets in the west and south were still projected to demand between 183 and 242 new units, with the majority of new build demand being for *rentals*.

In each of the studies, there is notable demand for lower-income housing units.

Downtown and Northeast have the largest potential market, with over 3,000 households in their potential market compared to less than 1,000 in most other geographies. While they have higher property values than the western neighborhoods studied, Downtown and Northeast still have high demand for lower-income housing.

TABLE 2 **Market analyses**

Neighborhood studied	Year	New units absorbable, 5 years - Rental	New unit absorbable, 5 years - Owner	Number of households in potential market	Number of households in potential market earning <80% AMI
Near Northwest/ Near West Side	2018	195-230	85-120	880	268 renter, 172 owner
Monroe Park/ Southeast	2018	180-210	100-135	855	228 renter, 175 owner
Rum Village/ eastern West Side	2018	195-235	160-230	1250	307 renter, 317 owner
Downtown	2021	425-510	150-180	3190	740 renter, 815 owner
East Bank	2021	115-140	110-135	540	120 renter, 113 owner
Northeast	2021	340-410	270-340	3405	536 renter, 1053 owner
West Side corridors	2014	128	96	1485	Not available

There is a strong demand for affordable housing across all areas studied, not only in less wealthy neighborhoods. Across all geographies, lower-income households are projected to be about half of the total potential demand for housing.

All geographies have a higher absorption rate for rental properties, which signifies an undersupply of high-quality affordable rental properties across South Bend. This suggests that new rental property managers will likely have an easier time finding residents than owner-occupied properties.

However, Rum Village and East Bank have relatively equal demand for new rental and owner-occupied properties.

Neighborhood plans

Existing plans and other studies guide decision-makers toward previously identified neighborhood concerns, or potential investments, that can be targeted with ARP funds (Table 3).

All plans emphasized vacant home remediation, rehabilitation, subsidizing affordable home development, and other policies that advance new home construction and existing home repair, and identified specific community partners who can take a lead role in real-estate development. Other central issues included infrastructure improvements, road redesign, and open-space and parks planning. Certain plans also identified useful sites for development, such as "neighborhood nodes" within the Lincoln Park plan.

The *Vacant and Abandoned Properties Task Force Report* deserves special mention, as it highlights South Bend's citywide housing challenges. This 2013 study investigated the extent of vacant and abandoned homes within South Bend. The report included a map that categorized the city according to four levels of redevelopment potential. This map may be a useful guide for future investments and identifies parts of the city in need of targeted housing investments. Among the many policy recommendations and investments were the formation of a land bank; more assertive code enforcement; and targeted investments to help repair vacant homes that are repairable.

In addition to the plans and studies outlined above, South Bend has been producing neighborhood plans for Rum Village, New West Side, Kennedy Park, and Northeast during the process of writing this study.

FIGURE 15 **Neighborhood types from *Vacant and Abandoned Properties Task Force Report, 2013***

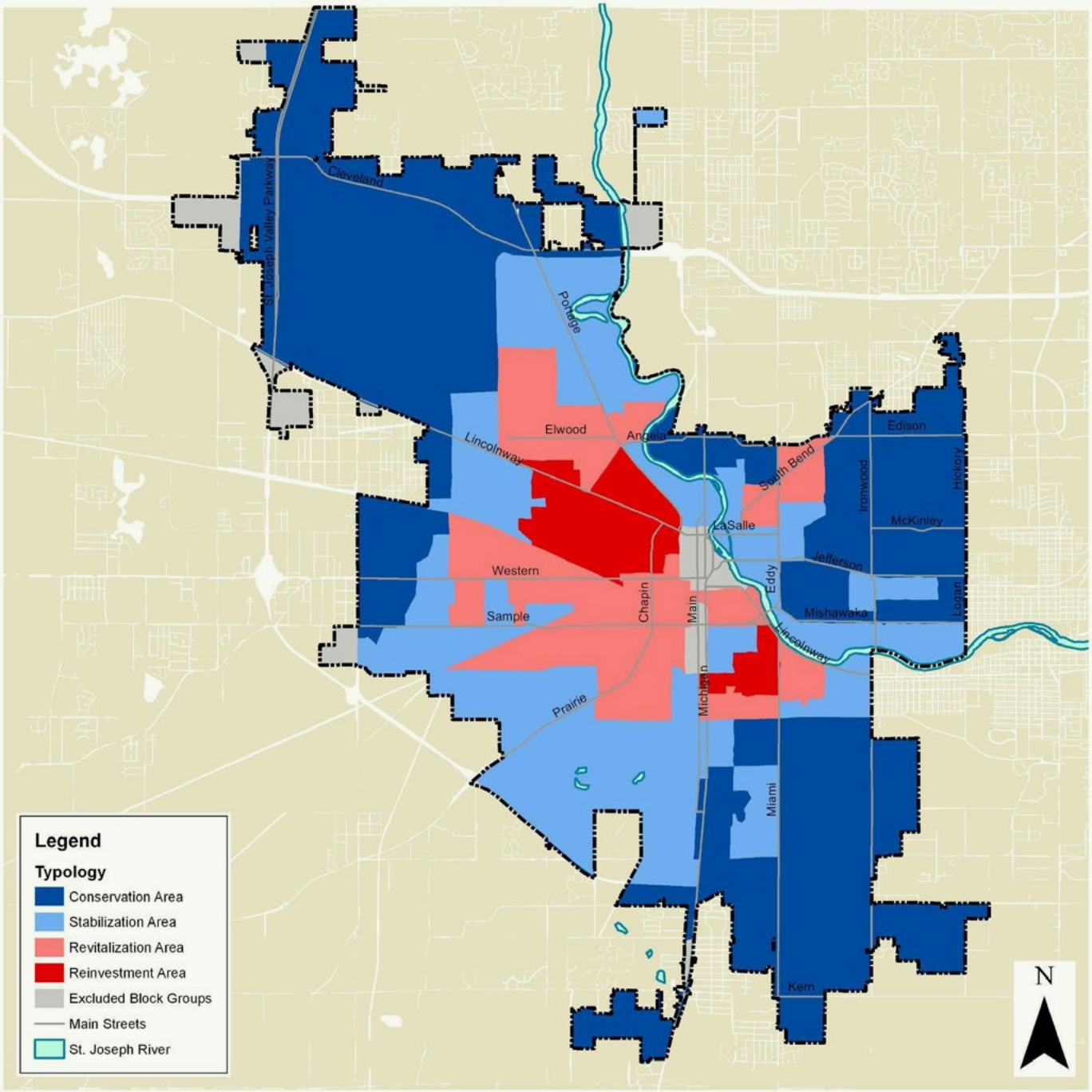


TABLE 3 **Recent relevant neighborhood plans and studies**

Plan/study name	Year	Description	Key components
Neighborhood, corridor, and areal plans			
Lincoln Park Neighborhood Revitalization Plan	2012	Neighborhood revitalization plan for northwest of downtown neighborhood	Revitalization plan focuses on vacant home remediation, home improvement, and new home construction.
Howard Park Neighborhood Plan	2012	Neighborhood plan for east of river neighborhood	Plan includes recommendations for development of former Transpo site and other infill sites; recommends improving pedestrian and cycle infrastructure around park.
Commercial Corridor West Side Main Streets	2014	Plan for improving west side corridors	Plan focuses on potential improvements to Western Avenue Corridor and Lincoln Way West Corridor; also concerned with neighborhood revitalization around renovated streetscapes.
Southeast Neighborhood Master Plan	2015	Neighborhood plan for southeastern neighborhood	Plan focuses on community investment and stabilization. Key recommendations: improve and develop vacant lots; corridor and park improvements.
Near Northwest Neighborhood Plan	2019	Neighborhood plan for neighborhood northwest of downtown	Plan recommendations focus on infrastructure improvements, mediating abandoned properties, helping close the appraisal gap, and promoting area as a mixed-use urban area.
Miami Hills Neighborhood Plan	2020	Neighborhood plan for south side neighborhood	Neighborhood plan for south side neighborhood, addresses infrastructure, transportation and multi-modal connections, recreation, and creating a variety of housing types.
Other relevant studies			
Vacant and Abandoned Properties Task Force Report	2013	Report on status and remediation of local abandoned properties	Study develops process for categorizing and handling vacant homes, Key recommendations: forming a land bank, aggressive code enforcement. Plan includes map of abandoned properties, and a map of neighborhood market classification.
CDBG RFP 2022	2021	Yearly CDBG RFP	CDBG plan addresses housing investment; shows recommended areas for housing investment: 1. Southeast of Ivy Tech 2. Two sections of Near Northwest

Chapter 2: Building ARP spending scenarios

Summary of scenario process

The main goals of this phase were to:

1. Develop a tool that South Bend could use to help make decisions about how to allocate ARP funds.
   - A pro forma model was built to estimate how much housing the ARP allocation could help subsidize, using pre-approved home construction plans and construction cost estimates from the City of South Bend.
2. Test (and hone) that tool by drafting three scenarios for how the ARP funds could be allocated.
   - Each scenario's focus is specific and unique:
     - Affordable housing in South Bend's most cash-strapped communities
     - Neighborhoods on the brink get affordable housing
     - Rehab, renew, and build affordable homes
3. Outline the lessons from scenario building and vetting phase in order to inform the final recommended options.
   - Building homes affordable to low-income residents (80% median income) and not extremely low-income residents (<30% median income), allows the city's ARP allocation to build more homes, but it risks not addressing the city's neediest residents, who have the largest gap between supply and demand.
   - Outside equity, a mix of market-rate units, and larger down payments would allow the ARP funds to go further when building affordable rental housing. Without a large down payment or outside equity, the operating costs of maintaining the units would exceed the revenue they generate.
   - Rehabilitation could be more cost-effective than building new homes, but significant money is needed to fix South Bend's most damaged building stock. The cost of a down-to-the-studs renovation is effectively equal to building a new home.

Developing and presenting these scenarios helped hone the pro forma model, and provided crucial information to inform recommended options (discussed in Chapter 3).

First, what is meant by "scenario"

The term "scenario" means a "potential way the money could be spent."

Scenario planning is a common strategy in private business, urban planning, and other sectors. Through developing scenarios around certain policy choices—such as how a lump sum of money could be spent on affordable housing—policymakers and the public can discuss the future effects of these present decisions on their community and craft resilient, robust strategies.

The scenarios are hypothetical ways that the city's $5.5 million ARP allocation could be spent.

This report's ARP funding scenarios are not explicit plans or policies. The scenarios are exercises that identify more specific ways the money could be spent and highlight tradeoffs between decisions. Again, the ARP funding scenarios described in this chapter are not explicit plans or policies.

Lessons from existing conditions

Existing research identified baseline conditions for developing different scenarios, along with showing key problems the ARP funds could address. The section that follows briefly describes existing conditions, and how they relate to ARP funding choices.

Demand exists for central-city housing. Market studies conducted for the city of South Bend show that thousands of new rental and owner-occupied units can be absorbed across multiple central South Bend neighborhoods on both sides of the river. Recent construction and high post-COVID-19 price spikes also evidence high demand. In recent history, the city has reformed its zoning ordinance and written other policies, such as pre-approved plans for smaller lots, to help streamline central-city development.

The city's neediest residents need quality housing. There are four census tracts within South Bend—mostly covering downtown and the areas to its west—where the median household income is less than $20,000. (In 2021, the federal definition of living in poverty for a family of four was an income of $26,500 or less). Residents are housing cost-burdened. While neither researchers nor the city possess detailed and reliable parcel-by-parcel building quality surveys, these same areas also have extensive vacancy, suggesting blight and lower-quality structures in which residents live. These two phenomena jointly suggest the need for quality, affordable housing. Citywide, there is evidence that the poorest residents are those which face the largest under-supply of housing.

There is demand for new owner-occupied housing stock. The strong post-COVID-19 real-estate market is uneven. Relatively few new homes have been built since 2016. Home vacancy, despite some positive signs, remains common. While the city has reformed policies to encourage development, the local home construction sector has been slow to respond. Newer homes can give appraisers "comps" they can use during the mortgage appraisal process, yet new home construction may risk accelerating unaffordability.

Certain neighborhoods may become unaffordable. There are many neighborhoods on the cusp of changes, which the ARP subsidy can address. Places like the Near Northwest, Northeast, and River Park face challenges in 2021. These include areas with some of the most active post-COVID-19 markets. Because property values have increased, these neighborhoods may become unaffordable for older residents looking to relocate to different homes in the neighborhood. They also may lack vacant land within portions of the neighborhood for new affordable homes, or they may have older properties in need of rehabilitation.

Estimating ARP-subsidized housing costs and affordability: the key assumptions

As part of the scenario building, estimates of the impact of ARP investments were generated using a spreadsheet model similar to a real-estate pro forma. Like any cost/revenue real-estate estimation model, certain assumptions about interest rates, construction costs, future revenues and other variables were made.

Potential ways money can be spent on housing:

This report chose to focus on housing construction and rehabilitation because the ARP Final Rule, as issued by the U.S. Treasury, emphasizes "[p]romoting *long-term* housing security" [emphasis added] for communities, and brick-and-mortar affordable housing investments are permanent in a way direct cash subsidies are not. Additionally, other ARP funds in South Bend went toward emergency rental assistance. While these emergency funds were a crucial and sometimes a literally life-saving measure, the terms of the final rule limits how these funds can be applied.

Therefore, in these scenarios, there are three ways money can be spent:

(1) Constructing owner-occupied housing,

(2) Constructing renter-occupied housing, or

(3) Rehabilitating existing homes, either owner- or renter-occupied.

In these scenarios and within the pro forma model, the ARP allocation subsidizes private development and repairs. *The city is not a development firm*. In the case of owner-occupied housing, the ARP money goes toward covering the gap between what South Bend residents can afford, and what it costs to build housing. For renter-occupied housing, ARP money goes toward the down payment on construction-to-permanent loans that finance affordable housing. Rehabilitation money hypothetically goes directly to property owners or their contractors.

TABLE 4 **Pre-approved plan details. Source: City of South Bend, Neighborhood Infill Study**

Type	Standard	Standard Suite	Narrow House	Narrow Suite	Carriage House	Duplex	Sixplex
SF/unit	1,632	1,902	1,120	1,390	576	880	828
BR/unit	3	4	3	4	1	2	2
Estimated construction cost Min. lot width (ft.)	$235,464 32	$257,173 32	$202,606 30	$222,02930	$139,26234	$321,57132	$685,01950
Estimated construction cost	$235,464	$257,173	$202,606	$222,029	$139,262	$321,571	$685,019
Estimated construction cost, 10% inflation	$259,010	$282,890	$ 222,867	$244,232	$153,188	$353,728	$753,521

TABLE 5 **FY2022 HUD Income Limits**

	Affordable housing costs (30% of monthly income per FY 2022 HOME income limits)				
	1-Person Household	2-Person Household	3-Person Household	4-Person Household	5-Person Household
30% AMI	$ 410	$ 469	$ 528	$ 585	$ 633
50% AMI	$ 683	$ 780	$ 878	$ 975	$ 1,054
60% AMI	$ 819	$ 936	$ 1,053	$ 1,170	$ 1,265
80% AMI	$ 1,093	$ 1,249	$ 1,405	$ 1,560	$ 1,685

Housing construction cost estimates come from pre-approved plans. To determine how far the ARP funding could go, reliable housing construction costs are needed for different housing types. South Bend staff provided pre-approved house construction plans from the South Bend Neighborhood Infill Study. For the infill study, consultants created pre-approved construction plans for infill housing that fits existing city building and zoning codes. The house plans are also appropriate to the smaller lot sizes often found in South Bend's central neighborhoods. These plan types are for single-family homes of different sizes, duplexes, and sixplexes (see Table 4). These construction plans were created prior to the recent inflation increases, so the pro forma model allows for the user to change cost estimates based on inflation and other factors.

Affordability varies by neighborhood and family size. While construction costs are relatively similar across the city, median household income varied by neighborhood. The scenarios attempted to account for these differences in income at the tract level when determining investments.

Affordability guidance largely comes from the U.S. Department of Housing and Urban Development (HUD). HUD issues income definitions for guiding how cities can spend grants from the HOME Investment Partnerships Program. Given how ARP funds were federally disbursed, it made sense to consider federally issued affordability guidelines within the pro forma. See Table 5 for the affordability limits used in this report. Extensive detail about this program, and certain changes, can be found in the Appendix.

For the purposes of these scenarios, the affordability definitions for each unit come from the bedroom count. Two-bedroom duplex and sixplex units' affordability definitions come from the two-person family affordability level; three-bedroom standard and narrow homes from a three-person family; and four-bedroom narrow suite and standard suite definitions for a four-person family. For example, consulting Table 5, a two-bedroom duplex that is affordable for an extremely low-income (30% MHI) family would rent for $469. A four-bedroom single suite home affordable for very low-income families (50% MHI for the purposes of this report) would cost $975 per month. Family size and number of bedrooms do not always align, but this assumption is deemed defensible.

The tool was vetted by the South Bend project team in April 2022. Critiques included accounting for vacant land, improving operating expense estimation, and other topics.

Given how the scenarios were created under an earlier draft of the pro forma model, details are omitted within the main narrative and moved to the appendix. The main reason for this phase was to investigate different potential broad strategies, and the potential tradeoffs of different policy choices, rather than estimating the most efficient or best investment.

There are certain limitations of the pro forma model.

- The model omits certain construction assumptions, such as asset depreciation and construction staging.
- The model has less detailed assumptions for construction costs and cannot estimate shortages or severe price spikes in certain materials. Even commonly used pro forma models cannot account for these spikes.

These limitations reflect the fact that the tool is for investing across multiple projects, and not providing detailed financial estimates for individual projects. Given the potential for cost overruns, due to things like inflation or material shortages, all scenarios (and final recommended options in the next chapter) do not advocate spending the full $6 million.

How far can the ARP funding go?

The pro forma tool was used to estimate how much housing could be built with $5.5 million.

In these estimates, which use the final pro forma model, **land is assumed to be free**, so construction would need to occur on city-owned or vacant property.

Assume ARP funds only build owner-occupied four-bedroom single-family pre-approved "Standard" homes at $282,000 each.

TABLE 6

How many $282,000 homes can the ARP funding subsidize?

Home sales price	Estimated monthly occupant cost	Number of homes buildable with ARP allocation
$50,000	$322	23
$100,000	$643	30
$150,000	$965	41
$200,000	$1,286	66

For the purposes of this study, the ARP funding subsidy covers the gap between what the home costs the person (Table 6, column 1) and the actual construction costs ($282,000 in this case).

Table 6, which shows how far the ARP funding could go if only building four-bedroom standard homes and the cost estimates,[7] makes a few lessons apparent. First, even a $200,000 home is "affordable" per the HOME affordability thresholds for a family of four. Second, extremely affordable housing is more expensive to build and requires more subsidy, leading to fewer overall units being built.

All told, the allocation can subsidize 23-66 affordable standalone "standard" homes.

7 Assumptions for these estimates: mortgage interest rate 4.5% with 30-year amortization period; property tax rate 1%; property insurance rate 1%; Mortgage insurance rate 0.85%; Down payment 3.5%

Assume ARP funds subsidize one sixplex with six two-bedroom units. The building costs $754,000 to build on free city-owned land, with no investor equity and 50% money down, with the rest of the costs financed by a construction-to-permanent loan. We assume a 10% vacancy rate.

TABLE 7

Sixplex "break even" on costs v. affordable rent

Affordability threshold	Rent	Does the building break even on costs?[8]
Extremely affordable (30% AMI)	$469	No ($3,817 short per month)
Very affordable (50% AMI)	$780	No ($2,138 short per month)
Affordable (80% AMI)	$1,249	Yes ($395 surplus per month)

All rental units have regular costs. In addition to maintenance, upgrades, property tax, "wear and tear," and paying property management staff, property managers also need to pay back the loans needed to pay for construction. In "market-rate" units, rent hypothetically covers all of these costs. For affordable units, additional funds are needed. Within this study, ARP funds go toward larger down payments in order to minimize loan servicing costs, which helps keep rents lower.

In this example, operating expenses, estimated to be $2,285 per month for the entire building, account for maintenance costs, upgrades, insurance and a "rainy day" fund.

This cost breakdown (Table 7) for this unit shows the need for outside equity, or a number of market-rate units, in order to help the development "break even" and take in enough revenue to keep up with repairs. Note that even 80% AMI "affordable" units are well above median rents for South Bend and barely break even. Without these subsidies in addition to ARP funds, too much money is spent on loan servicing and not repairs, and the project cannot cover regular costs if the rental units serve the neediest residents.

Assume ARP funds go toward one sixplex with six two-bedroom units. The above assumptions are the same, except investor equity covers 33%, a down payment covers another third, and a construction-to-permanent loan covers the last third.

TABLE 8

Sixplex "break even" on costs with investor equity and affordable rent[9]

Mix of units	Does the building break even on costs?[10]
3 rent at $1,249 (affordable) 3 rent at $469 (extremely affordable)	No ($784 short per month)
3 rent at $1,249 (affordable) 3 rent at $780 (very affordable)	Yes (Barely, $55 positive per month)
3 rent at $1,493 (market rate) 3 rent at $780 (very affordable)	Yes ($714 positive per month)

A large down payment is needed for affordable rental housing to break even (see Table 8). Even with a down payment that covers one-third of the cost of construction, and private equity covering another third, the building is not netting a large positive cash flow. A very large down payment is necessary.

8 Researchers assume with a 20-year construction-to-permanent loan with 6.5% yearly interest and 10% vacancy rate.

9 Cost assumptions are assumed to be same as Table 8.

10 Ibid.

TABLE 9 **Rehabilitation budget**

Rehab budget per home	How many homes can receive funds? (ARP allocation divided by budget)	Items that can be repaired within that budget (assuming only one item is chosen, not the entire list)
$10,000	550	■ Bathroom fixture updates ■ Kitchen fixture updates ■ Minimal foundation issues ■ Extensive landscaping improvements ■ Siding and paint repair ■ Gutter replacement ■ Moderate HVAC updates (e.g., replacing a heater)
$25,000	220	■ Major roof repairs ■ Significant HVAC updates (e.g., installing ductwork) ■ Extensive window replacements on historic homes ■ Extensive siding replacement
$50,000	110	■ Extensive foundation repairs (e.g., lift and fill) ■ Complete plumbing replacement ■ Fixing water damage
$100,000	55	■ Down-to-the-studs renovation of a portion of a home

Assume ARP funds only go toward extensive rehabilitation.

Low-cost rehabilitation can spread benefits to many households but are smaller-scale improvements compared to new-home construction.

Higher-cost rehabilitation is still roughly one-half the cost of building a new home, and it may not entail all of the work necessary to modernize homes with new fixtures.

Note that the cost estimates in Table 9 assume no soft costs for running a rehab program, which will be necessary as city staff time will be needed to run the program.

Three scenarios for spending ARP funds:

There are infinite calculations researchers could make in order to show "how far" the ARP money could go. To help hone the process, project staff devised comprehensive yet hypothetical scenarios for how the money could be sent. Feedback from these scenarios form the basis of Chapter 3.[11]

Policymakers and the general public can use the scenarios to better understand the types of choices they have for the ARP allocation and the potential outcomes of those choices.

11 A second key purpose of the scenario process was honing the pro forma tool. Project staff presented the tool, and scenarios, in April 2022, and the pro forma tool was developed further following feedback at this meeting. Since the scenarios were built with an older "Version 1.0" of the tool, their full details (regarding costs and revenues) are not included in the body text. Please consult the appendix for full information.

Scenario 1. Affordable housing in South Bend's most cash-strapped communities

The goal of this scenario is to house residents of South Bend's poorest census tracts.

What and where

In the first scenario, all of the ARP builds and renovates housing in census tracts 20, 21, and 23, which includes parts of the Near West Side, Kennedy Park, and La Salle Park. These are South Bend's communities with the lowest median incomes, all below the poverty line for a family of four.

There is about a 50-50 split between very/extremely affordable rental housing (17 units) and market-rate rental housing (19 units). As mentioned above, this sort of "split" helps the project's financial viability, and increases the likelihood of wealthier residents (who can afford market-rate units) moving into these neighborhoods. The subsidy sponsors a small amount of owner-occupied housing (10 units), which must be heavily subsidized to be affordable. The remaining funds are set aside for rehabilitation.

What's the story? Justifications and tradeoffs

As cited in the existing conditions, these areas of South Bend have a high amount of vacancy and older homes. Two of the three tracts have a high renter affordability gap, signaling the need for affordable housing.

New high-quality homes can help improve sagging appraisal values.

Targeting these neighborhoods for funds has important equity considerations, as residents have lower incomes, and have also historically borne the brunt of structural inequities.

One potential concern: Wealthier residents may raise local anxieties about gentrification and displacement. Measuring how much these new homes may "cause" gentrification, or measuring if gentrification is a potential outcome, is beyond the scope of this report, but the presence of even a few wealthier residents in high quality homes in these neighborhoods may raise concerns. This problem could be addressed by either building *only* extremely affordable housing (which means less housing could be built).

Scenario 2. Neighborhoods on the brink get affordable housing

The goal of this scenario is to provide permanent, affordable housing in neighborhoods with strong, growing markets, where high demand and post-COVID-19 price increases signal coming affordability challenges.

What and where

The focus of this scenario are census tracts 7, 10, and 17, which includes the highest demand areas in the market studies. Such communities are not wealthy: these tracts vary from being very low income (tract 17, which is downtown and has a MHI less than $20,000) to middle-income (with MHIs in the $40,000-$55,000 range). Future real-estate development may likely be too expensive for existing residents.

To help address this issue, this scenario entails building an even mix of owner- and renter-occupied homes. Having more affordable owner-occupied homes (21) than the previous scenario may help prevent displacement, as does building relatively affordable rental housing (28 units). These rental units are generally more expensive than those in the first scenario.

What's the story? Justifications and tradeoffs

Since these areas are higher-demand, and places where the city cannot as easily grant land to a developer, this scenario assumes that builders need to purchase land in order to build homes. Money spent on land purchases is money that is not spent building affordable homes. The other two scenarios assume land is free, since they are based in census tracts where the city owns ample vacant land that could be granted to a developer.

Because of land costs and high demand, assembling parcels for a larger development, where a developer could take advantage of economies of scale and build more homes, would be more difficult.

This scenario would help support affordable housing within areas with higher amenities. These tracts are closer to the city's major employment centers (e.g. campus and downtown) and generally have more services and retail establishments nearby than the areas in Scenarios 1 and 3. Rents are high, as well: Census Tract 10 (which is near campus and contains much of the Northeast neighborhood) has a median rent of $1,050, which is the sixth-highest of the 43 tracts in this study.

Photo courtesy of City of South Bend, Indiana Department of Community Investment

Scenario 3. Rehab, renew, and build quality homes

This scenario can be considered a "mix" of the other two: It focuses on neighborhoods with depressed housing markets, yet builds a mix of very affordable rental housing and more moderately-priced single-family homes, with the long-term goal of improving local appraisals. Unique to this scenario is that a substantial share of the ARP funds would go toward rehabilitation.

What and where

The areas of concern are census tracts 4, 27, 29, and 30, which includes all of part of the St. Casimir, La Salle Area, and the Southeast neighborhoods. These neighborhoods contain some of the city's highest vacancy rates, and show other signs of having many properties in need of repair and rehabilitation.

In this scenario, the bulk of funds go towards significant home rehabilitation (60 homes), while affordable owner-occupied (21) and rental (8) units make up the rest.

What's the story? Justifications and tradeoffs

One of the major concerns voiced by South Bend stakeholders had to do with the home appraisals in some of the city's older neighborhoods. This scenario attempts to use ARP funds to address this challenge by significantly improving existing homes, as well as building more new homes.

One key assumption in this scenario is that these new "comp" homes and rehabilitated homes will help stimulate the real estate market in the long term. The pro forma model does not attempt to estimate the impact these investments would have on neighborhood appraisals. Chapter 3 contains a recommended option that the city consult with appraisal industry professionals in order to estimate the impact of certain investments to answer this question.

Improved "comp" homes and improved home prices may have the unintended consequence of making the area unaffordable. This is one of the potential tradeoffs: Low appraisals were cited as a key concern by stakeholders, but higher appraisals and a stronger real-estate market may raise anxieties about residents being priced out. The counterpoint to this argument is that mean home prices remain extremely low, and affordability gaps do not exist within most of the city. This debate remains an active question.

Chapter 3: Findings, recommended options, and conclusions

Overall, South Bend has two related but distinct housing problems: home quality and home affordability. New high-quality homes are not affordable to most South Bend residents. Recent average sales prices on homes built after 2010 is above $200,000, which is beyond the reach of a household earning the city's median income. South Bend's aged housing stock also has higher rents than many residents can afford, particularly in certain areas of the city.

This report concludes with three recommended options for spending the ARP allocation. **The exact plan for spending the ARP allocation should be decided through a political process.** This report is intended to provide guidance and tools to help South Bend's community development staff and politicians choose how they allocate funds. Additionally, South Bend staff will possess the pro forma model and all data, allowing further analysis to occur within City Hall.

Recommended Option 1: "A little bit of everything"

The first option for spending the ARP funding addresses multiple housing issues in an attempt to do a little bit of everything: building extremely affordable rental housing, very affordable owner-occupied homes, affordable owner-occupied homes, and funding rehabilitation.

TOTAL COST: $5.49 MILLION

Renter-occupied homes constructed:

- **Subtotal: $1.55 million**
- **52 total bedrooms added**
  - Four narrow suite homes (Four-bedroom homes)
    - Three homes rent at $1,560 (low-income affordability)
    - One home rents at $585 (extremely low-income affordability)
  - Three sixplexes (18 two-bedroom apartment units)
    - Two units rent at $1248 (low-income affordability)
    - Eight units rent at $780 (very low-income affordability)
    - Eight units rent at $469 (extremely low-income affordability)
- **Justification:**
  - Market studies pointed toward low-income rental demand, particularly in western neighborhoods.
  - Affordability is still a problem in South Bend, particularly in those same neighborhoods.
  - This investment helps house lower-earning South Bend residents, as most units are affordable at the very low- or extremely low-income thresholds.

- **Assumptions:**
  - 15% discount on construction costs due to building at scale; labor costs minimized by larger-scale development
  - Free land: Apartments are developed on city-owned vacant parcels in lower-demand neighborhoods.
  - $908,000 in outside investor equity, with a $1.55 million down payment from ARP funds
  - Construction-to-permanent loan of $295,000 with 20-year period, 6.5% yearly rate
  - Monthly operating expenses of $2,285 per sixplex, $500 per home
  - 10% projected vacancy rate
  - Total monthly additional revenues: $337 (break even)

Owner-occupied home construction

- **Subtotal: $3.22 million**
- **90 total bedrooms added**
- Five standard homes at $135,000
  - Estimated monthly payments: $868 (very low-income affordability)
- 10 standard suite homes at $160,000
  - Estimated monthly payments: $1,029 (low-income affordability)
- Five narrow homes at $80,000
  - Estimated monthly payments: $514 (extremely low-income affordability)
- Five narrow suite homes at $120,000
  - Estimated monthly payments: $772 (very low-income affordability)
- **Justification:**
  - Building new homes has fewer soft costs for the city. The home is sold and becomes the owner's responsibility.
  - There is a large demand for new, high-quality owner-occupied homes, as determined in the market studies.
  - Helping appraisals: Home sales prices are depressed in many South Bend neighborhoods. Providing new, relatively affordable, high-quality homes in these neighborhoods can raise home values, improve existing resident equity and future appraisals.
- **Assumptions:**
  - Construction estimates are from pre-approved plans, adjusted by 10% to account for inflation
  - For narrow home lots land is free, because many narrow lots are in neighborhoods with vacant land. Otherwise, land costs are based on estimated lot sizes and are roughly $100,000 total for the standard homes.
  - Financials:
    - 4.5% interest rate accrued yearly on a 30-year mortgage
    - 3.5% down payment
    - 0% property tax (property tax waived for low-income homebuyers)
    - 1% property insurance rates
    - 0.85% mortgage insurance rates

Rehabilitation

- **Subtotal: $720,000**
- Rehabilitated 12 standard suite homes for an average of $60,000 each.
- Note: This number can be decreased to account for soft costs of ARP project administration.
- **Justification:**
  - Prior neighborhood plans *strongly* emphasize existing home rehabilitation, sometimes even more so than new construction.
  - Some of South Bend's neighborhoods have extensive aging building stock.

This option is not a discrete policy; rather, it shows how goals from all three scenarios can be fit into one package within the ARP funding limit.

This option favors developing owner-occupied housing, which may be tweaked in future iterations.

Recommended Option 2: To minimize soft costs, consider going "all in"

The first option proposed has "something for everyone," but it also entails the developer finding and screening homebuyers and property managers, and managing a rehabilitation program. Each of these efforts requires effort and labor hours, leading to costs beyond brick-and-mortar construction work. One simple way to avoid these soft costs is to spend the entire allocation on one

or two projects in areas with considerable vacant land and design the projects so they address multiple goals. These goals include providing extremely affordable housing and encouraging new construction.

A second "all-in" option focuses on building only rental housing for lower-earning South Bend residents. It does not address the challenge of improving home appraisals or building new owner-occupied homes. It is purposefully narrow in order to minimize costs and streamline development.

TOTAL COST: $5.29 MILLION

Renter-occupied homes constructed:

- **140 total bedrooms added**
- 14 narrow suite homes (four-bedroom homes)
  - Seven homes rent at $1,450 (low-income affordability)
  - Seven homes rent at $585 (extremely low-income affordability)
- Seven sixplexes (42 two-bedroom apartment units)
  - 21 units rent at $900 (low-income affordability)
  - 21 units rent at $468 (extremely low-income affordability)
- **Justification:**
  - Market studies pointed toward low-income rental demand, particularly in western neighborhoods.
  - Affordability is still a problem in South Bend, particularly in those same neighborhoods.
  - Developing one site only minimizes operational expenses and land construction costs.
- **Assumptions:**
  - 15% discount on construction costs due to building at scale; labor costs minimized by larger scale development
  - Free land: apartments are developed on city-owned vacant parcels in less wealthy neighborhoods.
  - $1.70 million in outside investor equity
  - Entirety of ARP allocation ($5.29 million) goes toward down payment.
  - Construction-to-permanent loan of $398,000 with 20-year period, 6.5% yearly rate
  - Monthly operating expenses of $2,285 per sixplex, $500 per home
    - Assumes roughly $400 above break-even revenue (after operating expenses) to account for unexpected costs or to invest in property improvements, programming for residents, or other amenities.
  - Assumes property taxes are paid. Removing property taxes would allow more extremely low-income units to be built.
  - 10% projected vacancy rate

Recommended Option 3: "Stick to the budget" and closely follow suggested allocations

The 2022 FY budget for the city of South Bend allocated $6 million ARP funds to affordable housing. Of that $6 million, $2.5 million was allocated to home repair assistance, $2.5 million to "housing financing" and $1 million to "home buying assistance."

These three categories align to the three categories of the pro forma model. At the outset of this project, it was understood that these categories could be flexible, hence the diverse funding options above. A third and final option follows closely the budget, and resembles the "a little bit of everything" example except that more money is allocated toward rehabilitation.

TOTAL COST: $5.37 MILLION

Owner-occupied home construction ("home-buying assistance")

- **Subtotal: $941,000**
- **36 total bedrooms added**
- Five standard suite homes at $170,000
  - Estimated monthly payments: $1,093 (low-income affordability)
- Four narrow suite homes at $150,000
  - Estimated monthly payments: $965 (very low-income affordability)

- **Justification:**
  - Building new homes has fewer soft costs for the city. The home is sold and becomes the owner's responsibility.
  - There is a large demand for new, high-quality owner-occupied homes, as determined in the market studies.
  - Helping appraisals: Home sales prices are depressed in many South Bend neighborhoods. Providing new, relatively affordable, high-quality homes in these neighborhoods can raise home values and improve existing resident equity and future appraisals.
- **Assumptions:**
  - Construction estimates are from pre-approved plans, adjusted by 10% to account for inflation.
  - Land is assumed to be free; homes constructed on vacant city-owned land in suitable areas.
  - Financials:
    - 4.5% interest rate accrued yearly on a 30-year mortgage
    - 3.5% down payment
    - 0% property tax (property tax waived for low-income homebuyers)
    - 1% property insurance rates
    - 0.85% mortgage insurance rates

Renter-occupied homes constructed ("housing financing")

- **Subtotal: $1.93 million**
- **68 total bedrooms added**
- Five narrow suite homes (four-bedroom homes)
  - Three homes rent at $1,560 (low-income affordability)
  - Two home rents at $585 (extremely low-income affordability)
- Four sixplexes (24 two-bedroom apartment units)
  - Eight units rent at $1248 (low-income affordability)
  - Eight units rent at $780 (very low-income affordability)
  - Eight units rent at $469 (extremely low-income affordability)
- **Justification:**
  - Market studies pointed toward low-income rental demand.
  - Report analysis shows high demand for extremely affordable housing.
  - This investment helps house lower-earning South Bend residents, as most units are affordable at the very low- or extremely low-income thresholds.
- **Assumptions:**
  - This $1.93 million is less than the original $2.5 million allocation in order to account for potential cost overflows.
  - 15% discount on construction costs due to building at scale; labor costs minimized by larger scale development.
  - Free land: Apartments are developed on city-owned vacant parcels in lower-demand neighborhoods.
  - $1.19 million in outside investor equity, with a $1.93 million down payment from ARP funds
  - Construction-to-permanent loan of $482,000 with 20-year period, 6.5% yearly rate.
  - Monthly operating expenses of $2,285 per sixplex, $500 per home
  - 10% projected vacancy rate
  - Total monthly additional revenues: $506 (break even)

Rehabilitation

- **Subtotal: $2.5 million**
- 38 standard suite homes rehabilitated for an average of $50,000 each
- Note: This number can be decreased to account for soft costs of ARP project administration.
- **Justification:**
  - Prior neighborhood plans *strongly* emphasize existing home rehabilitation, sometimes even more so than new construction.
  - Some of South Bend's neighborhoods have extensive aging building stock.
  - Rehabilitation programs, compared to rental property management, are relatively easy to administer for a private entity

TABLE 10 **Three proposals for spending the ARP allocation**

Name	Total rental units	Total owner-occupied units	Total units, by affordability thresholds	Outside equity needed	Tradeoffs and choices
"A little bit of everything"	22	25	15 low-income 18 very low-income 14 extremely low-income	$908,000	Focuses on more diverse housing choices. Builds in different sites across the city. Attempts to address diverse challenges (rehabilitation, appraisal, and affordable housing)
"Go all in"	56	0	28 low-income 28 extremely low-income	$1.70 million	Focuses only on building affordable rental housing, and building more extremely low-income affordable units. No owner-occupied units. Does not attempt to directly address appraisal or rehabilitation challenges.
"Stick to the budget"	29	9	16 low-income 12 very low-income 10 extremely low-income	$1.19 million	Focuses on staying in set budget, while attempting to address many needs at once Dedicates the most money to rehab ($2.5 million of allocation)

The rest of the chapter focuses on recommendations regarding broader concerns.

Consider parcel-level issues: vacancy, title and zoning.

According to South Bend's data, the city owns at least 200 acres of vacant land, much of it located west and south of downtown. Privately owned vacant land may have significant liens or title issues; labor needed to clear title in order to site development on these parcels may be needed (and expensive). Meanwhile, significant updating of South Bend's zoning code (and ongoing updates of its building code) has helped enable creative development in most of the city.

All three factors—the city's vacant land holdings, the abundant liens and title issues on under-used parcels, and current and future zoning—should be considered during the site-selection process for future development, in addition to being considered in future pro formas.

Explore policy options to maintain owner-occupied home affordability.

Any policy that proposes selling a $200,000 home to someone for $50,000 must address an important issue: Someone could theoretically sell their home for an immediate profit. This would not serve the ARP funding's goal of preserving affordable housing. The city should explore different options for preventing this, such as contractual clauses in the purchase agreement. Other models, like a land trust that limits the private equity a homeowner can build, can be explored and debated by South Bend stakeholders.

Don't forget rental properties when disbursing rehabilitation funds.

Home quality issues extend to rental properties. If ARP funds are used for rehabilitation, it is important to consider rental properties as well. Landlords may be slower to pursue these funds, and the city should target them through existing housing programs (e.g., rental inspections).

Photo courtesy of City of South Bend, Indiana Department of Community Investment

Explore rent-to-own options for rental homes developed through the program.

The Housing Authority of South Bend can explore a rent-to-own program for the rental properties developed through this project. Through lengthy residence, tenants can develop better credit and eventually build equity in their home. Designing such a program was beyond the scope of this project, but it remains a point of emphasis.

Consult with home appraisal industry representatives.

One assumption of the scenarios, and one of the options, is that new homes and renovations will improve local appraisals. One point to investigate: How much would a new home in a certain neighborhood improve appraisals? South Bend staff should consult with representatives from the appraisal industry if improving home appraisals is pursued as a policy goal.

Don't throw out old plans.

Consider development concepts from old plans, as identified in this study's first chapter, and use them as guides for the allocation. Neighborhood plans from the past decade did not identify some master-planned community to be "dropped" into a neighborhood, but they do identify parcels or areas that could be the site of transformational development. For example, the Lincoln Park master plan identifies potential "neighborhood nodes" that could be the site of transformational investments, and the West Side Main Streets study includes future site development concepts. Staff should identify such transformational sites from prior plans and consider them for investment.

One prior analysis that may be helpful is the neighborhood market condition classification in the *Vacant and Abandoned Properties Task Force Report* from 2013. South Bend's planners used data to cluster the city into four housing market types, identifying key problems and challenges in each of these market types. When trying to identify which neighborhoods receive ARP funds, this can be a useful tool.

Appendix

A note on HUD/HOME Income Guidelines

The HOME program is one of HUD's largest programs, allocating roughly $2 billion yearly to state and local governments to build affordable housing.

The HOME program sets local thresholds to define "low-income", "very low income", and "extremely low income" families by family size. These income thresholds are calculated for each metropolitan area, in order to account for local cost-of-living differences across the country.[12] HUD releases income definitions for metro areas, and South Bend's metropolitan area covers all of St. Joseph County.

Rather than using the HOME rent guidelines, which have complicated thresholds and do not apply as easily to homeowner housing costs, the scenarios presented in this study multiplied the HOME income guidelines by 0.30 to determine affordable rents.

Within this report, we emphasize which HUD income level—extremely low income, very low income, or low income—is targeted by proposed investments.

12 For details on the calculation methodology, please see: https://www.hudexchange.info/programs/home/home-income-limits/

Accounting for the different 2021 and 2022 HOME guidelines

During the scenario-building phase of research, 2021 HOME income guidelines were used. Typically, HUD releases the guidelines during the early Spring, so the initial phase of this project used 2021 numbers. In 2022, HUD released the income guidelines on June 15, after a draft of this report had been completed.

Because of high inflation, the income thresholds jumped dramatically. For example, the 2022 HUD low-income limit for a family of four in the South Bend metro was $62,400, while in 2021 it was $58,800 (see Tables 12). This increase of more than 6% is substantial enough that we wanted to account for it within our models, even though the changed definitions were released late in our process.

The decision was made to account for these changed definitions in Chapter 3. Since the scenario exercise in Chapter 2 was more exploratory, the 2021 definitions were used for those estimate (Table 11).

TABLE 11 **FY2022 HOME income limits**

FY 2022 HOME Income Limits (Effective 6/15/2022) South Bend - Mishawaka IN HUD Metro FMR Area	1-Person Household	2-Person Household	3-Person Household	4-Person Household	5-Person Household
30% AMI	$16,400	$18,750	$21,100	$23,400	$25,300
50% AMI	$27,300	$31,200	$35,100	$39,000	$42,150
60% AMI	$ 32,760	$37,440	$42,120	$46,800	$50,580
80% AMI	$43,700	$49,950	$56,200	$62,400	$67,400

Scenario and pro forma assumptions

The pro forma model was delivered to South Bend staff in October 2022.

A pro forma user can toggle different financial assumptions. Beyond the assumptions about local context, there are other specific financial assumptions for individual projects. These include but are not limited to rental vacancy rates in new developments, interest rates for construction-to-permanent loans (for rental housing), property management operating expenses, mortgage interest rates, down payment size, outside equity invested, and construction, land and rehabilitation costs. All of these can be toggled within the pro forma model.

Every scenario presented in Chapter 2 contains a set of consistent assumptions.

- All models in the Chapter 2 scenarios assume a 4.5% mortgage interest rate, 1% property tax rates, and 0.85% mortgage insurance rates for owner occupiers. In certain cases, property tax forgiveness is assumed for affordable homes.
- For rental properties, operating expenses are assumed to be in the range of 35% of rent revenues, with a higher percentage for affordable units (because even though rents are lower, building upkeep costs would remain relatively stable).
- Investor equity (usually in the range of 25% of costs) helps offset the size of the permanent-to-construction loans needed to develop affordable rental properties.
- Permanent-to-construction loan interest rates are estimated at 6.5%.
- All models assume 10% inflation from the cost estimates for construction in the pre-approved plans.

Scenario details

Note that all scenarios were built with an older, "Version 1.0" pro forma model. Their unit counts and cost estimates do not reflect updated, more robust assumptions. They are shared in this appendix for transparency.

Scenario 1 details

A $5.8 million subsidy builds 36 rental units and 10 owner-occupied units, plus substantial rehabilitation on 45 units (either owner-occupied or rented, at city's discretion). Thirty of the 36 rental units would be in multifamily housing. Half of those units (15) would be affordable to local residents earning the tract's median income, while the other 15 would be market-rate. The last six rental units would be standalone single-family homes: Four would be market rate, and two would have rents that would be very affordable per HUD guidelines for St. Joseph County ($600 for a new three-bedroom home), which is higher than the tract's MHI but is necessary to help the numbers work.

Owner-occupied units would be a mix of three- and four-bedroom units that would be affordable per the tract's MHI. The subsidy for these units is *massive*: to build 5 owner-occupied homes that are affordable to local residents requires about $1 million dollars, about one-fifth of the city's total ARPA allocation.

TABLE 12 **Housing scenarios**

	Emphasis	Total ARP allocation needed	Renter units built	Owner units built	Units rehabbed	Outside equity needed beyond allocation
Scenario 1	Extremely affordable (mostly rental) homes in poorest markets	$5.8 million	36	10	45	$1.1 million
Scenario 2	Moderately affordable owner/renter homes in growing markets	$5.8 million	28	21	35	$1.3 million
Scenario 3	Rehabbing and building "comp houses" in vacancy/demolition plagued areas	$5.5 million	8	21	60	$400,000

Regarding rehabilitation, this scenario sets aside between $50,000 and $60,000 per unit for rehabilitation, not enough money for a "down to the studs" renovation but enough to replace a roof and other major fixtures.

This subsidy would require an additional $1.1 million of outside equity.

Scenario 2 details

The focus of this scenario are census tracts 7, 10, and 17, which includes the highest demand areas in the market studies. Such communities are not wealthy: They vary from being very low income (tract 17, which is downtown, has a MHI less than $20,000) to middle-income (with MHIs in the $40,000-$55,000 range). Therefore, future real-estate development may likely be too expensive for existing residents.

This scenario entails spending $5.8 million to build 21 owner-occupied homes and 28 renter-occupied homes, and rehabilitate 35 homes.

Generally, homes rent for more than in the previous scenario. Of the renter occupied homes, 20 are affordable at the higher countywide HUD standard (two-bedroom units renting for $1050, three-bedroom units renting for $1,300), while the remaining eight are affordable to very low-income local residents.

Owner-occupied homes are also more expensive, selling for $150,000. Even at this higher price, monthly payments are still estimated to be less than $1,200, which is affordable per HUD countywide standards for a family of four. These moderately priced homes can help provide housing for existing residents with lower incomes, along with providing comparable homes for appraisers. Additionally, four homes will be affordable to very low-income residents (selling at $60,000).

Similarly, rehab costs are assumed to be $50,000-$60,000 per single-family home.

This would need to leverage roughly $1.3 million of outside investor funds in order to build permanent affordable rental units.

Scenario 3 details

The areas of concern are census tracts 4, 27, 29, and 30, which includes all of part of the St. Caz, La Salle Area, and the Southeast neighborhoods. While not the poorest neighborhoods in the city, they have high vacancy rates, hence the desire to stimulate the local home appraisals.

This scenario entails spending $5.5 million to build 21 owner-occupied units and eight rental units, and rehabilitate 60 homes. The rehabilitation effort would be larger, taking up the bulk of the ARP allocation.

Owner-occupied homes would sell between $60,000 and $207,000, with most selling in the vicinity of $150,000. The monthly costs of a $207,000 home are still below the HUD countywide affordability threshold for a family of four.

The fewer rental units built would be a mixture of market rate (around $1,000/month, still below the HUD threshold), and those affordable to low income ($700/month) and lower-income tenants ($441/month). These would all be in duplexes.

One major difference in this scenario is the cost and extent of home rehabilitation. This scenario entails rehabilitating 60 homes. Thirty homes would receive up to $50,000, and the other 30 would receive up to $35,000 for smaller repairs and renovations.

This scenario entails only needing $400,000 of outside investor equity, less than the other models likely because of the fewer units developed.

Mission

The Kinder Institute for Urban Research builds better cities and improves lives through data, research, engagement and action.

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