## Busting Common Development and Affordable Housing Myths

### Myth #1: Any kind of real estate investment in a disinvested community is beneficial to that community

Some people believe that if a neighborhood has a lot of vacant land and/or neglected buildings, any kind of real estate investment in that community is worth supporting. This could be true if those community members were guaranteed protection from rising real estate values, such as through rental or property tax assistance, wage increases, or rent control. However, in most cases, community members are not guaranteed these protections. Because of this, **it is important to 1) investigate whether a proposed development might increase surrounding real estate values and, therefore, put people at risk of displacement, and 2) seek financial support from public officials, nonprofits, and/or the developer themself as a way of minimizing these risks of displacement.** When real estate investments are accompanied by support for those who are most at risk, they help all residents benefit from the neighborhood's revitalization.

### Myth #2: For-profit developers will keep rents low, even if they are market-rate apartments

Many for-profit developers tell local residents that they will keep rents low in an attempt to win community support. This is especially common at Registered Community Organization meetings (see glossary for definition), where developers need to gain community support before their zoning hearing. The reality is that market forces automatically put pressure on for-profit developers to raise rents over time, making it nearly impossible for for-profit developers to keep their rents low in the long run. Even worse, some developers will set their rental prices below market rate in the first year, and then raise their prices by hundreds of dollars beginning the second year. Rent prices in Philadelphia have risen over 20% in the last 5 years, while wages have increased about 3%. **It can be worth asking for-profit developers to work out an agreement with community members to keep a portion of their rents affordable to people in the neighborhood's AMI range (see glossary for definition) for at least 5-10 years.** This can help existing community members stabilize themselves in an area with rising real estate prices.

### Myth #3: When facing a housing shortage, any additional housing is good for the community

In most neighborhoods, a shortage of housing automatically limits options for affordability, because landlords can charge higher prices when there is higher demand and less supply. Sometimes, new market-rate housing does a good job of slowing the rate at which landlords can increase rents because it adds to the supply. However, **the addition of market-rate housing does nothing to address a lack of affordable housing** in the community—and in the long run, it increases real estate values for the whole neighborhood. I**f a community faces a shortage of affordable housing, the only way to fill that gap is with additional affordable housing.**

**Myth #4: Any below-market-rate housing is affordable**

As explained in this glossary, “affordable housing” refers to housing that costs 30% or less of household income. Any housing that costs a household more than 30% of their income is **not** affordable housing, even if that housing is cheaper than other housing on the market. In Philadelphia, nearly half of all renters are cost-burdened—meaning they are forced to spend more than 30% of their income on rent.

**Myth #5: Cash offers and home equity loans are always beneficial for low-income homeowners**

<u>Re: Cash Offers</u>
Cash offers from companies like “We Buy Homes” can sound really appealing, especially if you live in a home that is a big financial burden. Many of these companies send text messages, make phone calls, and leave flyers and brochures under doors saying that they offer quick money. They put pressure on people to sign sales contracts on the spot—especially people whose homes need repairs—even when residents don’t want to leave.

In Philadelphia, many of these companies directly target seniors, heirs of family members who have passed, Black residents, and lower-income populations. For this reason, many experts have labeled this **a predatory practice, where especially vulnerable homeowners are cheated out of the real value of their homes with lowball offers.** After purchasing homes for less money than they are worth, these companies sell them for higher prices. Those who fall for these scams often realize too late that they have been robbed of tens of thousands of dollars.

Fortunately, a few years ago, the City of Philadelphia created the **Do Not Solicit List: a way to prevent yourself being aggressively harassed by these real estate entities**. Homeowners who add their names to the registry will no longer receive unsolicited offers from wholesalers seeking to purchase or rent their properties. Homeowners can sign the registry online at https://www.phila.gov/services/property-lots-housing/sign-up-to-stop-unsolicited-offers-on-your-home/ or by calling (215) 686-4500.

If you’re interested in selling to a company, it’s crucial that you understand the fair market value of your home. To learn more about this, check out https://www.rocketmortgage.com/learn/fair-market-value, or speak with a trusted organization. More information about homeownership scams can be found here https://clsphila.org/services/homebuying-scams/. If you are at risk of foreclosure, being harassed by one of these companies, or think you’ve been scammed, you should get in touch with a Neighborhood Advisory Committee or legal aid office ASAP.

<u>Re: Home Equity Loans</u>
A home equity loan (sometimes called a HEL) allows homeowners to borrow money using the equity in their home as collateral. The loans often come with upfront fees, but the interest rate

is fixed. It’s important to understand that failure to pay back the loan can result in the lender foreclosing on the home. Before taking out a home equity loan to consolidate your debts, it’s best to speak with a qualified community bank and/or credit counselor to help you weigh your options. Check out the National Foundation for Credit Counseling’s website or call (800) 388-2227 for more information.

If you want to obtain a home equity loan, it’s important to be suspicious of “bargain” offers that seem too good to be true. Make sure you understand all of the terms and details. Signs of predatory lending include:

- Financing offered by a home improvement contractor
- Excessive fees: Fees on the best loans are less than 1%. Fees on predatory loans can be more than 5%. It’s best to avoid fees for paying off your loan early—for example, a charge of six months’ interest to prepay.
- Kickbacks to brokers: The broker is the person who sells you the mortgage; the lender is the bank, or other financial company, that actually lends you the money and services your loan. When you get a high interest loan, the lender often pays a yield spread premium" to the broker.
- Loan flipping: If you are re-financing, be sure that you are getting a real benefit from the deal. Flipping happens when a lender makes money by having you take out a new loan, which just increases your debt. This happens because every time you refinance, you pay more fees. Flipping can drain your equity and increase your monthly payments.
- Products you don't need: A lender may try to talk you into paying extra for extra insurances or other products along with the loan. Don't buy anything you don't need.
- Mandatory arbitration: Some loan contracts require mandatory arbitration, meaning that you are not allowed to take the lender to court if you find out that your lender has taken advantage of you illegally.
- Steering and Targeting: A predatory lender may steer you into a sub-prime mortgage, even though you could qualify for a better loan. These loans are more expensive and more likely to have unfair penalties and the like. A lender who says that you have poor credit may be exaggerating or lying. It's always a good idea to ask the lender for your credit score. If your score is 650 or higher, you should be able to qualify for the best loan terms. You can also get your credit score online. If you use this online option, beware of pop-up credit offers. You are there to find out your credit score--not to get sucked into more unsolicited offers.

**Bottom line:** You always have a legal right to know the total cost of the loan, the annual percentage rate, the monthly payments, and how long you have to pay back the loan. Ask questions until you understand everything. If you are a homeowner age 62 or older, a reverse mortgage may be better than getting a home equity loan.

**Myth #6: Affordable housing drives down property values**

This is a stereotype that stems from histories of racism and discrimination against low-income people. Decades of research has shown that well-maintained affordable housing in mixed-income neighborhoods has no negative impact on surrounding home prices. A recent peer-reviewed study found that surrounding home prices increased by an average of 10% as a result of affordable housing— a “spillover effect” that is most noticeable in lower-income neighborhoods.

Further, design standards require that affordable housing projects align with the broader character of a neighborhood. Because affordable housing is a term that refers to the cost of rent rather than the type of building, **it’s often difficult to tell whether a building contains affordable housing just by looking at it.**

**Myth #7: Affordable housing hurts the quality of local schools, discourages employment, and brings increased crime**

The opposite is actually true! Without affordable housing, many families become trapped in a cycle of rising rents and have to move frequently to find living spaces they can afford. That means their children are not able to stay in the same schools for long, and parents are less likely to maintain long-term employment. When a child has a stable home and can remain in a single school system, their test scores often rise, and they can build crucial relationships with peers, teachers, and mentors. **Above all, schools that do not perform well often reflect a lack of investment from the government—not the presence of affordable housing.**

Because families in affordable housing pay rent every month, **the majority of those households include working parents or guardians.** Further, studies have shown that when low-income people are able to build strong networks of support in their neighborhoods, it is much easier for them to hold down steady jobs. Additional studies have shown that crime rates increase in neighborhoods with fewer resources and more potential for economic crisis. Affordable housing is a crucial resource for combating crisis by providing financial safeguards for those who are most at risk. The truth is that **when a neighborhood provides quality, stable housing for people at all income levels, everybody does better.**

**Myth #8: Affordable housing is a government hand-out**

It isn’t low-income people who benefit the most from federal housing subsidies, it’s wealthy developers and homeowners. Each year, millions of homeowners receive tax deductions for mortgage interests and property taxes. For-profit developers often receive tax abatements and other incentives to encourage the construction of new apartments. These subsidies cost the federal government nearly $85 billion each year.

Because affordable housing tenants still pay rent, most of them continue working to ensure their ability to pay long-term. With rising costs of living and general inflation, affordable housing developments perform a crucial role of providing consistently low housing prices—and by providing this stability in an unstable environment, it functions less like a hand-out, and more like a support system. Additionally, when you factor in improvements in property values, increases in taxes paid by stable employment, and enhanced revenues from a better-educated population, affordable housing provides a net gain to governments at every level.

*Sources: Habitat for Humanity, Economy League, U.S Consumer Financial Protection Bureau, Investopedia, and U.S. Census.*