

Testimony of Egbert L. J. Perry,
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Before the Housing, Transportation and Community Development Subcommittee
of the Senate Committee on Banking, Housing and Urban Affairs

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Good morning Chairman Menendez and members of the Subcommittee. My name is Egbert Perry. I am Chairman and Chief Executive Office of The Integral Group LLC, a private, for-profit real estate firm focused on implementing urban development projects nationally. I am honored to have the opportunity to come before you this morning to give you my testimony in support of “The Choice Neighborhood Initiative: A New Community Development Model.” This initiative would help to transform distressed neighborhoods and public and assisted projects into viable and sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs. My support comes not only as a result of my appreciation for the obvious public policy case that underpins the proposed legislation, but also from my experience as a practitioner in the private development marketplace.

INTRODUCTION

Integral is a 20-year-old firm, headquartered in Atlanta, Georgia. During that period, we have undertaken projects in many cities across the country, including Washington, DC, Baltimore and Atlanta.

Unlike many real estate companies, our firm undertakes both a) conventional (commercial) real estate development and b) community development. As we all are aware, commercial real estate development is “transactional” and, therefore, focused almost entirely on providing maximum economic returns to the investors and developers from the transaction in question.

On the other hand, our community development approach seeks to be “transformational” with respect to the building of communities. Like some of the other community developers, we come to this work with a commitment to transformation, while simultaneously seeking to achieve a reasonable profit. In order to transform, rebuild or revitalize communities, our core strategy is designed to leverage resources to restore the functioning of normal market forces, thereby minimizing the ongoing dependence on public funding to sustain the communities. This public-private partnership model is critical to successful community development initiatives, and the public dollars must be positioned to leverage private resources and private investment. Since the private sector partners in these undertakings

are expected to bear the guarantee and market risks, they must be able to manage and mitigate their risk, without ignoring the public policy priorities. Accordingly, there are several metrics that we use to measure success. They include:

1. Solid economic returns on invested equity;
2. Positive economic and social outcomes for the community residents;
3. Positive economic development impact on surrounding/adjacent communities; and
4. Positive economic impact on the local political jurisdictions (i.e. City, County and State).

BACKGROUND

It is this multi-faceted solution that the very best HOPE VI developments tried to achieve over the past 15 years. The Choice Neighborhood Initiative (“Choice”) improves on the lessons learned from HOPE VI and provides a path forward for achieving greater and more long lasting positive outcomes, by making some “nice to haves” under HOPE VI (such as linkages to education, working through non-public housing authorities, etc.) essential elements of the more “integrated” Choice program. In time, the success of this program should be reflected in a consistently higher level of quality in the development solutions that are produced under Choice.

Our firm has been involved in the development of over ten HOPE VI developments nationally, as well as other affordable, non-HOPE VI developments. This has helped me appreciate the potential benefits that Choice offers by reflecting on Centennial Place, the nation’s first HOPE VI development. Coincidentally, it was developed on the site of the nation’s first public housing project, Techwood Homes, and an adjacent public housing project known as Clark Howell Homes. Centennial Place was implemented by a public-private partnership that included The Integral Partnership of Atlanta, a joint venture between The Integral Group and McCormack Baron & Associates another private developer, and the Atlanta Housing Authority.

At the time of our engagement in 1994, the 60-acre property contained 1,081 severely distressed public housing units, 674 of which were occupied by households that had an average annual household income of \$4,300. The remaining units were vacant and uninhabitable. Captive to the property was an elementary school that was the second poorest performing elementary school in the Atlanta Public School system (“APS”). APS was ranked near the bottom of school districts in a state that was ranked 49th in the country. At the time, the crime rate at Techwood/Clark Howell Homes was 35 times the average rate for violent crimes across Atlanta, which according to law enforcement reports was one of the most dangerous cities in America. Suffice it to say that, like many others, this site of concentrated poverty was a ripe breeding ground for producing young people that could never successfully compete at home or in this globalizing society. Over 50 percent of the residents of the projects were children and approximately 25 percent were

senior citizens. Working adults were nearly non-existent despite the employment opportunities that existed down the street at Georgia Tech.

The vision that we conceived for the new community that we would eventually create sought to answer one basic question: Is it possible to create a mixed-income (subsidized and market rate) community on the site such that people of reasonable means would choose to live there? We answered in the affirmative and set out to do so. At the outset, our public-private partnership adopted five strategic goals that addressed the public policy priorities, while employing sound private business principles as the foundation for planning and implementing the vision, as follows:

1. Leverage the federal resources by attracting considerable local public resources, private philanthropic funds, as well as private debt and equity capital, to finance, develop and manage a new mixed-income community that would be healthy and sustainable over the long term.
2. Ensure that the development efforts positively impacted an area that was significantly broader than the primary 60-acre site.
3. Pursue a strategy to mainstream the public housing residents into the broader community, while providing counseling and other program support to help them in their transition towards self-sufficiency.
4. Build the human transformation efforts on a foundation of education, job training and employment.
5. Assist the Atlanta Housing Authority in achieving its own economic sustainability by generating additional sources of income to complement the shrinking federal funding.

Centennial Place, the new community that was eventually created on the site, contains the following components:

1. ***Mixed-income residential development***, comprised of 738 multi-family rental units and 45 homeownership units with a mix of public housing assisted households (40 percent), other low income households (20 percent) and market rate households (40 percent); These components were financed using a combination of federal funds, private equity and private debt. Infrastructure improvements (i.e. upgrades to roads, sewers, etc.) were funded using previously allocated federal resources, tax-exempt bonds and direct water, sewer and transportation allocations from the capital budgets of the City of Atlanta.

2. A complement of ***coaching and counseling services*** delivered to youth, young adults and seniors in assisted households to facilitate the transition to self-sufficiency.
3. Two ***early childhood development centers***, operated by established service providers, and funded by private philanthropy; These centers offer crib to kindergarten development services to all families;
4. A new ***high performing public school*** offering a Math, Science and Technology Theme, as well as an Arts program; This school represents a collaboration between the private developer, AHA, the school system and Georgia Institute of Technology (Georgia Tech).
5. A ***Family YMCA***, funded primarily from private philanthropy, and operated by the Metro Atlanta YMCA. In addition to some private foundations, the YMCA enjoys the support of a number of anchor institutions that call the neighborhood home.
6. Miscellaneous ***retail and other complementary uses*** that help to provide a quality of life experience;

The **results** have been extremely positive.

1. The presence of the high-performing elementary school has supported the motto that great schools are essential to create for a great middle class neighborhood. There has been an ***increase in the demand for housing in the school's zone***, and the outlook for real estate values is positive. For the first time in recent decades, with Georgia Tech and Techwood Homes/Centennial Place as next-door neighbors, a student that grew up on the 60-acre site has successfully matriculated to Georgia Tech. In fact, many of the students that went to Centennial Place Elementary School have since gone on to highly selective colleges and universities, including Princeton, Michigan, the schools at the Atlanta University Center and Howard.
2. The members of the families that lived in community before the development, and were relocated, have seen ***significant improvement in the circumstances of the families receiving assistance***, especially with respect to workforce participation and educational attainment, as attested to by academic studies conducted by Georgia Tech, Emory University and Georgia State University. Further, the ones that exercised their choice to live in Centennial Place saw even greater gains, particularly due to the presence of the excellent quality of life infrastructure (school, YMCA, etc.) that are now readily available and accessible to them.

3. The ***significant reduction in the use and cost of public services*** (police, fire, social services, etc.) in the zone in which this site sits is well documented. The area's safety is now on a par with safe neighborhoods throughout the city.
4. ***Extensive private development activity*** in the surrounding area has taken place. Much of this development would not have taken place if Centennial Place (which represented (a) a break from the old model that concentrated poverty, (b) the introduction of private sector involvement and market principles and (c) higher expectations and standards for personal responsibility) had not been created, or if some version of the old Techwood Homes (even with a facelift) remained. Within a two block distance south of the site, we have seen the development of the \$300 million Georgia Aquarium, the \$200 million-plus World of Coke Museum, the Children's Museum, and Allen Plaza, the one million square foot mixed-use development of high rise office buildings, hotels and condominiums. Other significant private development projects have been announced, including the planned National Center for Civil & Human Rights.
5. To the north, Georgia Tech has ***removed the physical and psychological barriers*** that have separated it from its southern neighbor for over 50 years. It is converting that corridor into its gateway to the campus. To the west, Coca Cola is expanding its headquarters and reaching out to the community, having made significant financial and other commitments to the school.
6. The City and County have seen ***this very large tract of land (including the project site) placed on the tax rolls and now contributes to their tax base*** after decades of receiving no tax revenues from these parcels.
7. In one of the ultimate signs of progress, the site and ***the census tract in which it sits is no longer considered "impacted" and eligible for the many public incentives*** for which those development areas typically qualify.

In essence, most of the ingredients for economic sustainability are firmly in place.

WHY CHOICE? – THE CASE

Thus, if the answer to the overarching question of – “Why the Choice Neighborhood Initiative?” is not already obvious, it can be explained in the following way:

1. Choice is built around the recognition that solutions should be developed locally and not at the federal level.
2. By virtue of the eligibility criteria, Choice ensures that grants are only awarded to those jurisdictions and communities in which the spirit of collaboration has been well cultivated and the critical planning and other ground work that results from such collaboration is evident before funding support is provided. This will surely

reduce implementation timelines, though revitalization projects are still time-consuming undertakings.

3. Many of the critical community building components that were discretionary under HOPE VI are mandatory under Choice. Those components tend to be directed towards addressing the poor human condition that exists in many of the targeted communities, and which has been facilitated by public policy over decades.
4. Under Choice, there is a clear recognition that public housing projects are not the only distressed developments where despair and concentrations of social ills exist. In fact, in many communities, some of the other subsidized developments are in as bad a shape, or worse, than much of the public housing stock. Those developments are often responsible for retarding neighborhood recovery efforts. Appropriately, Choice offers local communities a chance to leverage critical federal resources on a broader footprint, thereby expanding the revitalization impacts.
5. Choice ensures that federal funds are catalytic, and that the local governments are the primary source of the public funds necessary to address most of the infrastructure and service challenges that must be confronted, especially as the revitalization spreads to the surrounding neighborhood and requires further public investment.
6. Choice encourages local jurisdictions to seek out the best partners in the private sector to help conceive and implement these very complex community development plans that require attracting resources from private financial institutions.
7. The stimulus effect that Choice funds can have on expanding the revitalization boundaries results in considerable temporary and permanent jobs that will be generated.

CONCLUSION

A minority of individuals has suggested that HOPE VI was not successful, and have gone even further to suggest that Choice is likely to yield the same results. Undoubtedly, they are measuring the wrong indicators or are not basing their judgment from observations on the ground. I strongly argue that:

1. Those individuals have not been talking to the many families that, though initially skeptical, have found themselves thriving after what proved to be a brief period outside of their comfort zone. Though the last few years have adversely impacted most families of all stripes, the financial condition of the households that relocated from the housing projects has improved dramatically since leaving the extreme

concentration of poverty in those old communities. Their children are performing better in school and are more engaged generally.

2. They have not been talking to the local business communities that now find opportunities for development and investment in large swatches of the City that, heretofore, had been considered off limits or undevelopable.
3. They have not been talking to families that are moving into the neighborhoods because of the presence of a high-performing school.
4. They have not been talking to the City and County governments that have used HOPE VI projects to de-concentrate poverty, resulting in the simultaneous reduction in the demand for public services and the increase in the contribution to tax revenues in those areas of the City where such developments have been successfully undertaken, generally improving the livability of the City.
5. They have not been talking to the public redevelopment agencies that have been able to use their economic development tools to drive and achieve meaningful community economic development outcomes across the city by sponsoring the expansion of this community development approach.
6. They have not been talking to the investors and lenders that find these communities to be places where they are able to perform responsible and profitable community investment and lending.

The implementation of the Choice Neighborhood Initiative is not without risk, as it requires that the goals, objectives and funding of several federal departments be aligned so that the aspirations articulated in Choice can be achieved. Those departments include Housing & Urban Development, Transportation, Education, Health & Human Services, among others. Ultimately, the community revitalization initiatives will be deemed successful when they remove the non-economic hurdles and re-engage the private development marketplace on the primary site and in the surrounding areas.

It has been said that for every 1 percent increase in the high school graduation rate nationally, there is a \$1 trillion increase in the country's GDP over the life of those graduates. The result of replacing broken and isolated communities in our country with healthy, nurturing, connected and sustainable communities that unleash more of our human potential should be near the top of our priorities if we are serious about regaining our global competitiveness.