Preserving Affordable Homes for Equitable, Healthy Communities

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Center for Community Investment

LINCOLN INSTITUTE OF LAND POLICY

SAHF
STEWARDS OF AFFORDABLE HOUSING FOR THE FUTURE

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About

About the Center for Community Investment

The Center for Community Investment at the Lincoln Institute of Land Policy works to ensure that all communities, especially those that have suffered from structural racism and policies that have left them economically and socially isolated, can unlock the capital they need to thrive.

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About the Lincoln Institute of Land Policy

The Lincoln Institute of Land Policy seeks to improve quality of life through the effective use, taxation, and stewardship of land. A nonprofit private operating foundation, the Lincoln Institute researches and recommends creative approaches to land as a solution to economic, social, and environmental challenges.

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About Stewards of Affordable Housing for the Future

Stewards of Affordable Housing for the Future (SAHF) is a nonprofit collaborative of 13 exemplary multi-state nonprofit affordable housing providers who own more than 147,500 affordable rental homes. Launched in 2003, SAHF's members came together to promote their shared ownership objectives, which embraces the notion that stable, affordable, service-enriched housing is critically important in the lives of all people.

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The importance of a stable, affordable, healthy home has never been more evident than during the COVID-19 pandemic. Our collective success in combatting this global crisis hinges on every person having a home where they can shelter in place and take the precautions needed to remain healthy. However, the economic downturn resulting from the pandemic threatens not only individual health and housing stability, but the actual supply of affordable homes across the country—which has long been insufficient to meet the growing need. To restore the health of our nation and advance racial equity, we must preserve affordable homes by maintaining their long-term financial and physical viability and keeping rents affordable for current and future tenants.

An affordable stable home was already out of reach for millions of people before the pandemic and not just in high-cost markets. Nationally, a family needs to earn an hourly wage of $19.53 to afford a modest one-bedroom apartment, yet the federal minimum wage is only $7.25. Not only are rents too high, but incomes are also too low. This is particularly true for Black and Latinx people who are disproportionately likely to be low wage workers. The pandemic has only exacerbated these challenges. Millions of people, including those who were already rent burdened, have lost jobs or income, leaving them unable to pay rent. In an April poll by the Pew Research Center, 52 percent of low-income adults said that someone in their household had experienced job loss or income reduction due to the pandemic. However, when disaggregated by race, those numbers varied widely: 61 percent of Latinx adults, 44 percent of Black adults, and 38 percent of whites. These disparities are particularly striking given that people identifying as Latinx and Black comprise only 18 percent and 13 percent of the U.S. population, respectively.

While temporary eviction moratoria may provide protection from immediate displacement, they don't offer residents relief for the mounting rent they will owe during this time. Low incomes will make it almost impossible for these households to catch up, even when they can resume working. This is a direct threat to housing stability.

At the same time, without sufficient rent collections, landlords are struggling to meet obligations such as mortgage payments, property insurance, and taxes, as well as current and impending maintenance needs. If owners continue to defer maintenance, the physical condition of the affordable rental stock will also deteriorate, meaning that more rental homes could become unsafe or even unavailable. If this rent crisis continues without assistance for renters and landlords, properties will also be lost to foreclosure or sale as owners can no longer shoulder their financial burdens. The deterioration or sale of these rental homes threatens the housing stability of millions of current residents and limits the options for future residents. Homeowners face similar tradeoffs, as growing unemployment and reduced incomes also challenge their ability to pay mortgages and expenses.

We can't afford to lose any affordable homes. Even before the COVID-19 pandemic, there was a gap of seven million units affordable to the lowest income people. In Ohio, for instance, there are just 44 rental homes affordable for every 100 households with extremely low incomes (at or below 30 percent AMI). In Pennsylvania it's just 38 units and in California only 23. Affordability problems aren't limited to the lowest income renters. In most metro areas across the country, at least 40 percent of renter households are paying more than they can afford for rent. Race-based gaps in access to affordable and healthy housing also existed before the pandemic. People of color, and especially Black households, are disproportionately renters and traditionally have more difficulty paying rent. According to a recent study from the Urban Institute, 58 percent of Black households, 52 percent of Latinx households, 40 percent of Asian households, and 27 percent of white households were renters in 2018. In 2019, a larger share of Black and Latinx

> **People of color, especially Black households, are disproportionately renters and statistically have more difficulty paying rent.**

households reported difficulty paying rent than white households: one-third of Black households often or sometimes had trouble paying rent, which is nine percentage points higher than white households. This is no surprise given that Black and Latinx households are more likely to be low wage workers and generally earn less than white counterparts.

The COVID-19 crisis is only making these disparities worse. According to a Census Bureau survey, about 25 percent of Black and Latinx renters deferred or did not pay rent in May, compared with 14 percent of white renters. Not surprisingly, an analysis by The Center for Public Integrity shows most eviction filings since March have occurred in minority and low-income neighborhoods. These disparities are consistent with the disproportionately higher job losses experienced by Blank and Latinx people early in the pandemic and the slower decline in unemployment among these groups as the economy reopens.

> **Nearly 50% of Black and Latinx renters expressed slight or no confidence in their ability to pay rent in June, twice as high a rate as the nearly 25% of white renters with the same concerns (still a staggering percentage).**

Housing unaffordability and racial inequities have direct health impacts as well. Persistent segregation and structurally racist policies have relegated many people of color to densely populated areas, often in housing that is overcrowded or unaffordable, with inadequate access to healthcare and other resources. A recent AmFar study, which shows that the number of COVID-19 diagnoses decreases as the white population in a county increases, reflects these disparities.

Rising cost burdens and an economic crisis for renters coupled with a shortage of affordable housing and economic pressures on property owners (when residents can't pay rent) threaten to deepen our nation's racial crisis along with our housing crisis—unless we take quick and strategic action.

WHAT ROLE CAN PRESERVATION PLAY IN ADDRESSING THESE AFFORDABLE HOUSING CRISES?

A concerted strategy for preserving existing affordable homes while creating new ones is essential to averting an even deeper affordability crisis, rising homelessness, increasing racial inequities, and declining health and life outcomes for millions of people. Preservation is also a key tool in ensuring more equitable communities. However, it requires collaboration, sound policy, and a range of financing tools. To support healthy and equitable communities, preservation must not only keep rents low but also keep housing stock well-maintained. This can require remediating health risks like lead and mold, enhancing energy efficiency for cost and quality of life benefits, and proactive investment in systems like roofs and HVAC to keep properties in good condition for the long term.

We know that we are unable to build our way out of our current affordability crisis due to a variety of concerns, ranging from cost of production and length of time between conception and occupancy to NIMBYism. We also know that preservation is quicker and more cost effective. However, we are losing existing affordable housing at an alarming rate: For every new affordable apartment created, two are lost due to deterioration, abandonment, or conversion to more expensive rental housing. This means that without preserving existing subsidized and "naturally occurring" (unsubsidized) affordable housing, we fall two steps back for every step we take forward.

In high opportunity communities where it's especially difficult to build new housing due to high land and construction costs, preserving and improving existing affordable housing is also an important tool for promoting equitable development. In disinvested neighborhoods, whose residents are often largely people of color, preservation is essential in the near term to ensure stable, healthy homes for current residents, and in the long run to guard against future displacement and begin to course correct for decades of racist policies that have led to disinvestment.

In order to take action on preservation, we need to understand the landscape. The risk of losing affordability is greatest for what is often referred to as naturally occurring affordable housing (NOAH). These rental homes tend to be modest older units that are affordable to people at the middle and lower end of the income range without any assistance from federal, state, or local government. While residents may be able to pay rent in normal times, they are at risk when job loss and income disruption occur, as in the pandemic. NOAH rental properties are also more likely to be smaller scale and owned by individuals or local partnerships and companies who may not have the resources to weather an economic downturn like the extraordinary collapse associated with COVID-19. As the crisis continues without relief, these landlords could be forced to sell to owners who may not keep rents affordable, given that NOAH properties have neither the financial incentive of a subsidy nor a restriction to maintain affordability.

Subsidized (or publicly financed) affordable housing is also at risk. Subsidized and restricted homes have financial and/or legal mechanisms, like subsidy contracts or use agreements, which keep them affordable to people with modest incomes for a specific time period. In the next decade, approximately 500,000 affordable rental homes financed with the Low Income Housing Tax Credit (LIHTC) will reach the end of their federally required 30-year affordability periods. Many will be at risk of being lost as affordable homes. Given the uncertainty of rent collections in the past six months, owners of these properties may become more hesitant to preserve them as affordable for a longer term unless rental assistance or other relief is made available.

Thirty-nine percent of small-scale landlords surveyed by the Terner Center for Housing Innovation in July lacked confidence they could cover their costs over the next 90 days.

Government-backed Solutions to Preserving Affordability

Examples of subsidies and restrictions that keep homes affordable:

- **Project-based rental assistance** (e.g. project-based Section 8) provides private owners with payments directly from the government to keep rents affordable for residents with low incomes. The payments are tied to the unit rather than a specific resident, which ensures that the particular unit stays affordable.
- **Low Income Housing Tax Credits** make a tax credit available to investors who invest in the development or preservation of affordable rental homes. In exchange, the homes must remain affordable to people with modest incomes for at least 30 years.
- **State and local grant or loan programs** provide funding for construction or rehabilitation and in exchange require that rents remain affordable for five or more years. These funds often come from the federal HOME Investment Partnerships program or the Community Development Block Grant program.

Case Study | **Preserving Homes and Revitalizing Communities**

WOODLAWN, CHICAGO, ILLINOIS

The Woodlawn neighborhood on the South Side of Chicago has a rich history and a bright future. Flanked by Jackson and Washington Parks and in close proximity to the University of Chicago's South Campus, Woodlawn was home to the 1893 World's Fair and was later a cultural hub with landmark jazz clubs. Like too many thriving and racially diverse urban communities, Woodlawn's population peaked in 1960 and the following decades brought population decline and disinvestment, attributable in large part to racist policies and practices. Today, growth on the University of Chicago's South Campus and the planned Obama Presidential Center have attracted new attention to the area and new concerns about further displacement of longtime residents. However, a strategic and comprehensive approach to both preservation and revitalization has helped ensure that longtime residents can thrive in their communities.

In 2008, Preservation of Affordable Housing (POAH) was invited by the community to acquire Grove Parc Apartments, a 504-unit Section 8 development that was slated for closure. The physical condition and design of Grove Parc was not conducive to healthy, long-term preservation, so POAH instead started down a path of using the subsidy from Grove Parc to help create a community of over 1,000 new rental homes that would serve current residents, meet new demand, and create a vibrant home for longtime residents. This redevelopment was accomplished without displacement. All residents of Grove Parc were guaranteed new homes in Woodlawn.

POAH expanded its revitalization efforts by buying and preserving the 16 buildings that make up the Washington at Woodlawn Park. Working with the City of Chicago, Local Initiatives Support Corporation, Community Investment Corporation and other partners, as well as with the help of Chicago-based Community Investment Corporation, POAH was able to acquire and rehabilitate the buildings. Rehabilitation included needed repairs, installation

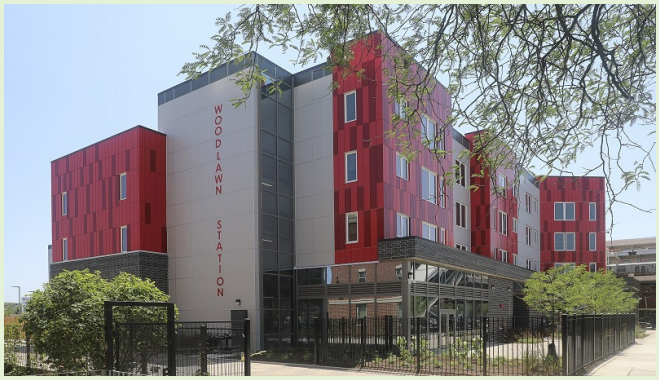

Image Credit: Preservation of Affordable Housing (POAH)

of solar panels and energy efficiency measures to keep homes more affordable, and other quality of life updates. This work was accomplished with a blend of public and private funding, including federal funds and funding and support from community development financial institutions (CDFI). All of the homes at the Washington will remain affordable to low- and moderate-income people. POAH also obtained project based rental assistance that will keep some of the homes affordable to people with very low incomes in the future.

Preservation hasn't been limited to rental homes. Through Renew Woodlawn, a partnership with Neighborhood Housing Services, POAH has helped create more than 40 homeownership opportunities. Through this program, prospective homebuyers are identified and offered one on one purchase counseling, discounted purchase prices, mortgage financing, and funds for renovation of homes in the neighborhood.

POAH's revitalization of homes in Woodlawn has spurred broader growth and investment for a healthier community, including new businesses that offer services and jobs and a resource center for residents. This transformative investment in the Woodlawn community was made possible by a strong coalition of community-based organizations and stakeholders. While POAH's investments have been a catalyst, partnerships among local groups have created an even closer-knit community and a stronger civic life. •

The lessons of the last financial crisis tell us that we must act now to create strategies for preservation. During the Great Recession of 2008-2010, many affordable homes were foreclosed upon or otherwise sold to institutional investors seeking "value add" opportunities, meaning that they ultimately sought to maximize rents or to redevelop properties for uses that didn't include the same affordable rents. Other affordable homes were lost to disinvestment or neglect. By the time many cities and housing organizations focused on preservation, thousands of homes had become uninhabitable or unaffordable.

> **Affordability restrictions could expire on about 1.2 million rental units by 2029, according to Harvard's Joint Center for Housing Studies and the National Housing Preservation database.**

WHAT ARE THE CHALLENGES AND OPPORTUNITIES FOR PRESERVATION IN THIS MOMENT?

At its core, **preservation is about keeping homes in good physical condition and keeping rents affordable.** Both the challenges to and tools for preserving affordable homes fall broadly into three categories: data, identification, and coordination; physical condition and rehabilitation; and property values and acquisition.

Data, Identification, and Coordination

The first challenge to preserving affordable housing is knowing what to preserve. Communities may not know when properties are in distress, the affordability periods on restricted properties are about to expire, or NOAH properties are about to be sold. It takes careful research and collaborative effort to find this data and act on it.

In the past few years, gains have been made in creating and updating preservation databases, like the National Preservation Database, to track when restrictions end. When restrictions end, owners can exit these programs and convert properties to non-affordable use. However, these databases still contain significant gaps, amplified by lack of data on specific subsidy types and the complexities of accounting for properties with multiple subsidies and/or restrictions. These resources are thus most effective when augmented with local information and expertise. Stakeholders can then collaborate and take action on the basis of both qualitative and quantitative data.

NOAH properties in need of preservation can be even more difficult to identify due to lack of accessible data on properties and their owners. Many NOAH owners are individuals or smaller partnership entities that are difficult to identify and not necessarily engaged with local government or industry groups. These data hurdles make scalable strategies challenging.

How have communities turned data and identification challenges into opportunities for coordination?

- Washington, D.C., has established its own DC Preservation Database of affordable properties, including those in deteriorating/at-risk condition. Every month, volunteers update the database with data from the D.C. government, Urban Institute, and HUD. DC's Preservation Network then meets to discuss the properties identified as at risk and develop strategies for preserving these units. An Affordable Housing Preservation Officer within the Department of Housing and Community Development also champions preservation.

- In Colorado, an interagency working group of federal, state, local, and private sector actors developed a comprehensive database to identify, track, and monitor properties most at risk in order to prioritize resources like the state's Low Income Housing Tax Credits. The group preserved more than 16,000 affordable rental homes between 2016 and 2019.
- In Chicago, the Preservation Compact brings together public, private, and nonprofit leaders in an Interagency Council to execute a preservation strategy for all of Cook County. The Council uses federal, state, and local agency data to identify and evaluate at-risk properties, then coordinates and tracks progress on preservation strategies. Properties are deemed at risk due to a range of factors including expiring subsidy contracts or affordability restrictions and deteriorating physical condition.
- Partnerships like Greater Minnesota Housing Fund's NOAH Impact Fund offer strategies for both identifying and financing NOAH preservation opportunities. The Minnesota Preservation Plus Initiative included research on the NOAH stock and strategies for preservation. The NOAH Impact Fund blends public and private capital to make equity (cash investment rather than loan) available for up to 90 percent of the cost of acquiring NOAH properties.

What can you do?

All stakeholders can advocate for the preservation of affordable homes in their communities.

1. Local government, nonprofits, and community institutions can start by conducting land and at-risk property inventories, building from the National Preservation Database and other resources.

2. Nonprofits and local government can form preservation working groups and task forces to use this data to better understand the preservation needs of their communities, leverage their resources, and surface new opportunities for preserving homes that might otherwise be sold in a competitive market that doesn't support affordability. For example, the Pittsburgh Preservation Working Group is comprised of affordable housing developers, intermediaries, local agencies and foundations, the state Housing Finance Agency, UPMC, and the UPMC Health Plan. The group is presently focused on the acquisition of a 1000-unit portfolio that serves extremely low-income families. It is also dedicated to working on preservation policy action items in Allegheny County and the City of Pittsburgh. Such groups can also:

    - Create ways to keep data up to date through interactions with owners of NOAH properties
    - Offer incentives to small landlords to maintain their properties and keep them affordable
    - Create mechanisms that support preservation, targeted to the specific needs and opportunities they have identified (e.g., rights of first refusal, which allow residents, qualified nonprofit organizations, or local government the right to purchase and maintain rent restrictions if an owner attempts to sell or convert the property to another use)

3. Community institutions, philanthropy, and capital providers can bring much needed funding and relationships to the table, which can encourage other stakeholders to engage in data efforts. They also can catalyze interest in preservation by connecting it to health and economic equity.

Physical Condition and Rehabilitation

A key challenge of preservation is a physical one: ensuring that older homes remain healthy, stable places to live. Older or inadequately maintained homes may include unhealthy building materials, inefficient energy systems, leaky roofs, and other elements that undermine the health of residents. Repairs and updates cost money and create challenges for residents living on site. However, rehabilitation also offers an opportunity to make existing homes healthier. Building on the lessons learned from COVID-19, with adequate resources developers can implement changes like touchless entry, improved ventilation systems, and better configured entryways and common areas that can support resident health and well-being.

Some properties may require only modest repairs for preservation. For these properties, a key tool can be easy and quick-to-access financing (loans or equity). Properties with deeper needs, including many public housing and older restricted housing properties, may require substantial rehabilitation (defined by HUD as repair needs that exceed 15 percent of the replacement value of the property or $6,500 per unit). Low Income Housing Tax Credits can bring in much needed equity to help preserve properties with significant physical needs (unfortunately, transactional costs and steep competition for the more valuable 9 percent credit can make LIHTC a less feasible solution for smaller properties).

Rehabbing a property with modest repairs can be accomplished with low-cost debt provided by social impact investors or foundations.

Subsidized and Restricted Housing

Without a long-term strategy, subsidies and affordability restrictions are not always sufficient to prevent deterioration of housing stock. Federal investments have not kept pace with need, and there is currently a $70 billion backlog of capital repairs in the 1.3 million units of public housing around the country. While entrepreneurial housing authorities are pursuing public housing preservation and redevelopment, the stock in some communities continues to deteriorate and is at risk of loss. Similarly, there are privately owned, subsidized properties where owners have not kept pace with the physical needs or will be unable to do so through this economic downturn, which puts those properties at risk of deterioration or loss. Loss of valuable subsidized rental homes would only decrease the supply of affordable homes for the lowest income people. It is vital that federal, state, and local government, as well as other community institutions, identify subsidized properties at risk and pursue the capacity, strategies, and resources needed to preserve them. The preservation working group models outlined above provide valuable examples of how this can be achieved.

NOAH/Unsubsidized Housing

NOAH properties may face additional unique rehabilitation challenges. NOAH is often found in modest older apartment buildings or communities, where building age may mean increasing repairs. Though NOAH properties tend to be smaller and have fewer units, their transaction costs are often similar to those for larger buildings, which can make financing acquisition and rehabilitation more difficult. There are also few dedicated resources for acquiring and preserving NOAH properties; most commercial real estate products are designed with an eye towards increasing rents and maximizing revenues in ways inconsistent with maintaining affordability. To keep properties affordable, owners need options that provide paths to acquisition and resources for lighter rehabilitation and repairs at below-market rates.

Filling the Gaps: Connecting to Rehab and Repair Resources

How can repairs and rehabilitation be funded?

Maintaining and extending long-term affordability and ensuring the physical and financial viability of affordable properties requires a suitable scope of work and may call for multiple sources of financing, including:

- **Low Income Housing Tax Credits,** which some states use to prioritize preservation of both privately owned and subsidized rentals by specifically allocating portions of LIHTC allocations and federal funds for preservation projects
- **State and local acquisition funds, tax abatements, and legislation** that give preservation efforts a chance to get off the ground
- **Private and philanthropic investment** to support repairs, comprehensive rehabilitation, and resident engagement
- **HUD's Rental Assistance Demonstration (RAD),** which addresses public housing's massive capital needs backlog by allowing the transfer of public housing to a public-private partnership model, which enables properties to access debt and equity. Rents for RAD properties are limited by current funding levels, which means that some properties are unable to support new financing. In recent years, RAD has also put significant pressure on the Low Income Housing Tax Credit program, both because it has added to the pool of properties competing for these funds and because some states have prioritized these properties for funding.

  While RAD is a valuable tool for preserving public housing stock, there is concern that shifting public housing—owned by an instrumentality of local government—to a private owner, even in partnership with the public housing authority, shifts power away from the community. There are also concerns that mixed income developments created through RAD could lead to broader displacement of nearby residents, even if all public housing units are replaced. These risks can be mitigated by carefully forging partnerships with owners committed to engaging with and reflecting the community in redevelopment and by investing in resident services to help ensure that all residents can remain or return to the redeveloped site.

Even where a landlord or homeowner has found a financing path for keeping rents affordable, rising rents and property values in the surrounding neighborhood can drive increases in property taxes that put pressure on small landlords and homeowners and can ultimately increase costs or lead to displacement.

Programs like Philadelphia's Long Time Owner Occupancy Program provide real estate tax relief for long-time residents in neighborhoods where assessed values are rapidly rising. For multifamily rental properties, cities and counties can use payments in lieu of taxes (PILOTs) or tax abatements to create predictability in property tax expenses and support affordable rents.

AURORA, ILLINOIS

In Aurora, Illinois, the 2000 Illinois Apartments are home to 128 families who enjoy affordable rents in a location just minutes from major employment centers like Presence Mercy Hospital and close to highways and public transportation. 2000 Illinois is home to a diverse community of families, seniors, and students. However, as in many older buildings, physical deterioration threatened both the building's livability and affordability—paint started to chip, mold began to grow, and outdated and poorly maintained energy and mechanical systems meant higher utility bills for residents. Rising costs and deterioration threatened to displace residents or to create a less healthy living environment.

Mercy Housing Lakefront, a mission-driven nonprofit housing provider, saw this as an opportunity to preserve homes. When the property went up for sale, Mercy needed reasonably priced capital that allowed them to act quickly to secure this building in an attractive location. Mercy partnered with the Housing Partnership Equity Trust and was able to secure a streamlined package of financing resources—both a loan and equity investment—that let them make a quick offer to purchase the property. Mercy's ability to move quickly allowed them to negotiate a low price that lowered the overall costs so that they could make updates to the apartments while keeping rents affordable.

According to Rick Guzman, Executive Director of the Neighbor Project and former Assistant Chief of Staff in the Aurora Mayor's Office, "Aurora is a working-class town where many people pay unaffordable rents and endure poorly maintained properties. Without Mercy's purchase, 2000 Illinois would have likely continued to deteriorate." Instead, apartments got new windows, lighting fixtures, and modern flooring; storm-water drainage was improved; and the parking lot was repaved. Landscaping and new drywall made the apartments feel more like homes. "There's a strong body of evidence that tells us that the places where we eat, sleep and play have significant impacts on our health, safety, and sense of wellbeing," said Mark Angelini, President of Mercy Housing Lakefront. "The improvements at the 2000 Illinois Apartments are a testament to that—the building now feels exciting to live in as opposed to drab."

Most importantly, Mercy has been able to make these changes with annual rent increases of only one to two percent. Keeping this property as "naturally occurring" rental homes didn't come naturally. Mercy needed both low cost capital and the ability to move quickly to secure the property at a competitive price. •

Note: As of November 2020, 2000 Illinois has been sold. The sale included a tax credit that will retain affordability on at least a portion of the units.

Image Credit: ReNew Aurora

How have communities turned repair and rehabilitation challenges into opportunities?

- Pittsburgh URA's Small Landlord Fund provides grants of up to $20,000 per unit or $60,000 per project to landlords who need to repair no more than five units that are rented to households who have Housing Choice Vouchers or incomes at or below 80 percent AMI.
- Washington DC's Small Building Program offers grants that provide up to $200,000 per property for repairs in exchange for a five-year affordability commitment.
- Greater Minnesota's NOAH Impact Fund raised $50 million to preserve 2,000 units of rental housing. This fund blends investments from state and county government, philanthropy, and community banks and makes lower rates possible in part through a credit enhancement that reduces risks to the investors.

Using Energy-Efficient Practices to Preserve Affordable Homes

Energy Efficiency

In both subsidized affordable housing and NOAH, addressing energy and water efficiency offers an opportunity to make homes more comfortable and more affordable. Low-income families spend 20 percent or more of their income on energy and people of color disproportionately experience energy cost burdens. The cost of utilities is the largest controllable operating expense in multifamily housing; high energy costs also make it difficult to keep rents low.

Efficiency investments in multifamily affordable housing mean energy savings, lower energy bills, more stable rental payments, reduced pollution, and a better quality of life for residents. The federal Weatherization Assistance Program, local utility programs, and energy performance contracting are just a few strategies for financing energy and water efficiency improvements in affordable housing. Landlords and community actors can also explore the use of renewable energy sources such as solar panels to help keep utility costs low. While there may be a host of efficiency strategies available, the needs of and benefits to residents should be carefully considered in identifying the measures that will be pursued. Stewards of Affordable Housing for the Future has created resources for engaging residents and assessing the benefits of energy and water conservation measures.

Acquisition and Property Values

A final preservation challenge in the last decade has been acquiring properties at a price that allows rents to remain affordable. As property values and rents have increased all over the country, so have pressures on landlords to raise rents or sell properties at prices that will eventually require increased rents or displacement. If an owner must borrow more to acquire and rehabilitate a property, their debt service obligations will be higher and they will need to generate more revenue—meaning rents will need to be higher. There are three key ways to address this challenge: with early opportunities to purchase, lower purchase prices, and better access to funding for the preservation-minded purchaser.

Early opportunities to purchase

A right of first refusal or strong notice requirement can be an effective tool for preserving affordable homes locally. These policies range from simply requiring owners to notify local government and nonprofit actors before selling a property or before affordability expires, to more robust requirements that give tenants, local government, and/or nonprofits an option to purchase the property before it can be sold. An example is the Tenant Opportunity to Purchase Act and, more recently, the District Opportunity to Purchase Act in Washington, D.C., which have preserved thousands of homes (see below). Montgomery County, Maryland, also exercises a right of first refusal policy, and recently Prince George's County, in partnership with Kaiser Permanente and key stakeholders along the Purple Line transit corridor, has activated its use of the policy. These early opportunities to purchase provide valuable time to assemble financing sources, but as discussed below, it is critical that low-cost sources be readily available to support purchase options and other preservation strategies.

With such a tight rental housing market, many potential purchasers offer higher prices, assuming they will be able to increase rent. Some mission-driven developers have been successful in preserving affordability, especially in NOAH properties, by buying properties 'off-market'—without a broker and the robust competition they can bring. This approach may be difficult to scale, but along with rights of first refusal, well-developed preservation networks and engaged community partners could help facilitate more of these transactions.

> **Agile and flexible capital is absolutely key for preserving affordable homes.**

Low Cost Capital

Even with a reasonable purchase price, owners usually need additional 'soft' funding to support lower rents. This funding can include grants, loans, or investments that are repaid only when cash flow is available and/or over a longer time horizon. Local tax incentives are another vital tool for preservation. It is critical that these low-cost funding sources be rapidly accessible as mission-oriented buyers seeking to acquire and preserve affordable homes are often competing against cash buyers who can move swiftly and at competitive prices. Sources that are preapproved and can be drawn on demand are most effective for these circumstances. Where preapproval isn't feasible, programs that allow priority processing for preservation purchases can also be helpful.

Case Study

Preserving with a Right to Purchase and Supporting Affordability through Energy Efficiency

CHANNEL SQUARE, WASHINGTON, D.C.

Over the past decade, Southwest Washington, D.C., has seen some of the greatest reinvestment and increases in rents in an already expensive city. Sandwiched in between the Capitol Riverfront that is anchored by Nationals Stadium and The Wharf redevelopment, this neighborhood now offers world class entertainment, outdoor recreation and job opportunities, but also very high rents. Two-bedroom apartments in this area rent for over $4,000 per month.

Image Credit: New Community Partners

However, thanks to strong preservation policies (e.g., DC's Tenant Opportunity to Purchase Act) and capable partners, the more than 220 families that live in Channel Square apartments have been able to stay in quality affordable rental homes in this great location. Back in 2012, the owner of Channel Square notified residents that their building was up for sale. The resident association exercised its rights under the Tenant Opportunity to Purchase Act to preserve their homes and partnered with NHT Communities, Somerset Development Company, and the Jonathan Rose Companies to purchase Channel Square.

The residents and their partners developed a plan to preserve the long-term affordability of the homes. An Affordable Housing Covenant was recorded against the property to preserve it not just for current residents, but as an affordable home in a great location for future residents. This agreement:

- Limits future rent increases on all homes, treating them as if they were rent controlled
- Keeps two thirds of the apartment homes affordable to people with low incomes
- Establishes a preference for Section 8 Housing Choice Voucher holders

These protections have been successful in keeping Channel Square affordable to long-term residents like 70-year-old Yvonne Ball, who raised her children here as a working single mother and has since downsized to a smaller unit. "I feel safe. I feel at peace. Everything is convenient. One of my favorite memories here is raising children in an atmosphere where I didn't have to worry." The preservation of the property has also helped sustain a truly mixed-income community. Approximately one third of residents have low incomes and use a Section 8 Housing Choice Voucher to pay their rent. Incomes for those households that don't have vouchers range from $20,000-$120,000 per year.

As in many preservation transactions, speed of execution was key. The residents and their partners acquired ownership of the property with the help of an acquisition loan from the District of Columbia Department of Housing and Community Development, but renovation didn't occur until 2016. At that time, Channel Square benefited from common area upgrades and new cabinets and doors for all units, installation of a very large solar power system and a significant energy retrofit supported with funding from the District of Columbia Sustainable Energy Utility. Thanks to the energy retrofit, which will result in 20 percent cost reduction annually, and the solar power system, home is even more affordable for residents. •

Community Land Trusts

In some jurisdictions, residents, nonprofits, and local government have partnered to create community land trusts (CLTs) to help preserve affordable housing. Community land trusts are community-based organizations that hold and steward land for a particular purpose, which can include maintaining affordability and preventing displacement. While this model is more familiar in a homeownership setting, groups like the Champlain Housing Trust in Vermont have also used a community land trust model to acquire and preserve affordable rental housing in perpetuity (see below). Community land trusts present an opportunity to engage and transfer power to residents and the community while facilitating new investment. CLTs create and maintain affordability because they purchase or are granted land for the express purpose of creating affordable housing. Owners of homes on a CLT can benefit from affordable purchase prices (and in the case of rental properties, ultimately lower rents) made possible by lower land costs and other subsidies. Homeowners or nonprofit/community-based organizations can grow wealth by sharing in the appreciation of the property. While CLTs can help preserve affordability and grow wealth for people and communities, the model can be less effective for closing wealth disparities. From a racial equity perspective, homeowners are often people of color or community-based organizations who must share home appreciation values with larger, white-led nonprofits or institutions.

How have communities turned acquisition challenges into opportunities?

- In Washington, D.C., the Tenant Opportunity to Purchase Act has been used to preserve thousands of units. In recent years, the city has also issued implementing guidance for the District Opportunity to Purchase Act, which gives the city the opportunity to purchase any rental property where more than 25 percent of units are affordable.
- In Oakland, California, Kaiser Permanente partnered with East Bay Asian Local Development Corporation to help finance the acquisition of properties in rapidly changing neighborhoods.
- Through the Housing Partnership Equity Trust (HPET), a group of nonprofit housing providers co-created a real estate investment trust that has raised funds from impact investors that can be used to make investments in preserving both NOAH and restricted affordable housing. HPET offers a speed of execution that helps its mission-driven members compete to acquire and make repairs to properties.
- In Burlington, Vermont, Champlain Housing Trust opened the Bel Aire Apartments, converting an older motel into housing for the formerly homeless with a grant from the University of Vermont Medical Center. Champlain Housing Trust has also acquired rental properties, made a portion of the units available to residents as homeownership opportunities, and retained other units as rentals.
- The Douglass Community Land Trust in Washington, D.C., is a more recently established community land trust that acquired its first rental housing asset last year.
- In Richmond, Virginia, Bon Secours Mercy Health has supported the Maggie Walker Community Land Trust, which creates homeownership opportunities for lower income people in the community near the Bon Secours Richmond campus by allowing them to purchase only the dwelling that sits on land owned by the CLT, thereby reducing the cost of ownership.
- The City of Portland, Oregon, has used tax increment financing (TIF) to support affordable housing. TIF allows cities to self-finance reinvestment by designating future growth in property tax revenue for specific public purposes, including resources for affordable housing. Cities can also use this revenue to support repayment of bonds issued for large projects. In Portland, at least 30 percent of TIF revenue for renewal districts is designated for construction and preservation of affordable housing.

What can you do?

Community stakeholders, state and local governments, and private sector actors such as healthcare institutions, foundations, and other partners can take action by exploring vehicles and tools for acquiring and rehabilitating properties, making investments that provide flexible and affordable capital for preservation, and advocating for policy changes.

1. Ownership and Operations: Structures that provide sustained pathways for financing preservation of affordable homes and opportunities for long term ownership and affordability are a key part of a preservation strategy. These vehicles often require collaboration between community stakeholders and local government:
    - Community stakeholders can explore whether a community land trust would provide a helpful tool for affordable housing preservation.
    - Local government can create tax increment financing districts that use future increases in property tax revenues to support affordable housing or other investments.
    - Local governments can provide tax abatements or payments in lieu of taxes to help lower the costs of affordable rental housing which makes preservation more feasible.

2. Investment: Community stakeholders can identify nontraditional investors like philanthropy or healthcare stakeholders, who might provide financial support to help facilitate preservation. This could be grants or investments in individual projects or in the work of mission-driven developers. Actors interested in preserving affordable housing by providing flexible capital can explore a range of investment strategies that will allow communities and their partners to respond to preservation needs and maintain affordability:
    - Consider impact investing by lending or making equity investments on terms that will allow preservation purchasers to act fast to preserve affordable rental housing for the long term. To be most impactful, this capital should require no repayment or low, interest-only payments while the purchaser assembles permanent financing.
    - Make grants or provide guarantees that can be used as credit enhancements for development. Credit enhancements may allow a developer to borrow or raise other funds on more favorable terms or explore a new preservation strategy.
    - Consider investing patient capital at the enterprise (developer) level rather than at the individual project level. This can be the most valuable preservation resource when provided to a pre-qualified mission-driven developer to allow them to respond nimbly to opportunities.
    - Invest in nonprofits and community-based firms owned by people of color not only to preserve affordable homes, but also to build community capacity and wealth in ways that can support more racially equitable investment and development in the future.
    - Invest in energy and water efficiency measures that keep homes affordable and make them healthier and more comfortable. This may include offering favorable financing terms for retrofit measures and advocating to expand existing programs to cover rental housing as well as owner-occupied homes, which will make resources available for landlords to finance efficiency measures whose benefits will ultimately flow to residents.

3. Policy: All stakeholders, including private sector actors like healthcare institutions, foundations, and other partners, can advocate for public investments in and policy levers for preservation, including:
    - Federal Policy: Increasing federal investments in affordable housing preservation
    - State Policy: Dedicating state and local resources to support preservation and prioritizing preservation when state housing finance agencies allocate resources, especially LIHTC
    - Local Policy: Exploring right of first refusal as a local policy priority to give the community a chance to assemble financing and potentially preserve affordable homes

HOW CAN WE ENGAGE AND EMPOWER COMMUNITIES?

The best preservation outcomes for residents and their communities occur when preservation engages and empowers residents and is complemented by broader investment in the community. This will be particularly critical in communities of color, which have been disproportionately affected by COVID-19 job losses and business impacts.

Resident engagement is key to ensuring that rental housing preservation activities meet the needs of the residents and their community and support their agency and well-being. This is true from preservation of individual apartment buildings to comprehensive neighborhood revitalization. Stakeholders from the public and private sector can support preservation and resident well-being by financially supporting and partnering in resident engagement and services before, during, and after rehabilitation transactions. Rehabilitation and construction of a rental property can be extremely disruptive to residents. Quality resident services can help residents navigate this process and flourish in newly rehabilitated properties. Successful engagement can include identifying and strengthening existing community networks and leaders, leveraging them to help engage residents in planning for the future of the property and community, and collaborating to carry out those plans. Unfortunately, this level of work with residents isn't typically included in project financing.

Partners can also identify opportunities for the preservation and redevelopment of community facilities and surrounding areas. This will be particularly important post-COVID as the financial crisis has strained many small business and civic institutions and may result in further vacancies and loss of services in many communities.

Ultimately, preserving affordable housing is a means, not an end. The goal of this critical work is to make sure that all Americans have housing they can afford, in which they can live flourishing, healthy lives. The challenges, examples, and strategies provided here are a means to get to that end.

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