HOUSING PARTNERSHIPS: THE WORK OF LARGE-SCALE REGIONAL NONPROFITS IN AFFORDABLE HOUSING

Final Report

March 2007

Prepared for:

Housing Partnership Network

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Housing Partnerships: The Work of Large-Scale Regional Nonprofits in Affordable Housing

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TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION

The Housing Partnership Network (HPN) is a peer network comprised of 87 nonprofit organizations involved in affordable housing as developers, lenders, managers, and service providers. Its members are selected based on six criteria[1]:

- Mission-driven nonprofits, whose primary objective is to provide affordable housing opportunities and related support services to lower income households;
- Sound businesses, built on good leadership, staff, systems, and financial performance;
- Public-private partnerships, including business, government, and other institutions;
- Large-scale impact, sponsoring large scale initiatives at the highest performance level in their geographic markets;
- Regional scope; and
- An entrepreneurial culture of collaboration among peers to improve current practices and pursue new opportunities.

HPN and some of its partners sought to improve their knowledge and the knowledge of potential supporters and collaborators about HPN members and their work. Their focus encompassed three elements.

(1) *productivity*: what array of housing units and other real estate developments, financing dollars, housing management services, and services for project residents and other community members do HPs deliver?

(2) *models of business operation*: how do HPN members perform their work, with what common approaches and priorities?, and

(3) *policy obstacles and issues of its member organizations*: what matters of public and private policy are impediments or challenges to HPs' success and how can they best be changed or accommodated?

These three elements are the subjects of this report.

Ultimately, the new knowledge is to be used to enable HPN and its members and partners to better serve HPs with appropriate activities and to better explain to others the unique nature, capabilities, value, and needs of the HPN organizations as a group, in order to gain

[1] See HPN website at www.housingpartnership.net, accessed April, 2006.

further support for their efforts. And understanding of HPs' approach to their business may allow other HPs and nonprofit developers to emulate the most productive aspects.

The questions of how and how well HPs conduct their work and are affected by policy are of substantial consequence in the field of housing generally and affordable housing in particular. As we shall see in more detail later, HPs are major developers of housing and particularly rental housing, substantial providers of property management and resident and community services, and significant housing lenders. As developers, they produced nearly 20,000 total units, including almost 18,000 rental units, in just the single year 2004. That compares for example to the about 112,000 units of all multi-family unsubsidized (and unfurnished) rental housing completed in the country in 2005.[2] Were HPs developers of market-rate housing rather than, overwhelmingly, subsidized affordable units, the production by just 63 reporting HPs[3] would be almost one-sixth as large as that of all other rental developers.

But HPs are in fact, by mission and by selection into HPN membership, developers of affordable housing[4]. There is not one single number available to measure total assisted rental housing produced in the U.S. in a given period. But we can compare HPs' output with production under important public programs of housing development assistance and by other major groups of producers. Much of current affordable rental construction and substantial rehabilitation uses low-income housing tax credits (LIHTC) and/or funds from HUD's HOME program. Aggregate HP production is substantial when compared to housing assisted by these programs. Annual average LIHTC (all rental) production over relatively recent years is about 105,000 units.[5] HPs' total annual output (including tax credit and other projects) is more than one-sixth as large as that total. About 31 percent of the tax credit total is produced by nonprofits, or 32,000 units. HPs' overall production is 60 percent as large as the nonprofit LIHTC total. Rental units completed with HOME assistance were a total of 22,000 in FY2005.[6] HPs' rental production exceeded 80 percent of that HOME production by all developers. HPs' combined production level certainly puts them in a central place in production of affordable rental housing.

Many individual HPN members are developers and lenders on a substantial scale. As we shall see later in Chapter 2, though HPs are relatively few in number, their housing production is significant relative to that of other much larger networks of nonprofit housing producers. Individually, average lifetime production by HPs appears to exceed that of other

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[2] *U.S. Housing Market Conditions*, HUD, 1st Quarter, 2006.

[3] Of all HP members, 63 responded to our data survey and indicated they were developers of at least some units.

[4] Within their housing production activities.

[5] *Updating the Low-Income Housing Tax Credit Database,* Sandra Nolden, et. al., HUD, 2003.

[6] *FY2005 Performance and Accountability Report*, HUD.

groupings of nonprofit developers by a substantial margin—developers including the aggregate of CDCs and the organizations assisted by major intermediaries.[7] And current levels of production per HPN member well outstrip that of typical **for-profit** developers of rental housing—assisted or unassisted—as well.

In addition, HPN members manage a significant majority of their own rental units. And they provided a variety of services to residents of their projects and other community members, totaling as many as 80,000 people served in 2004.[8] Tenants of HP projects, homebuyers and homeowners, and low-income community residents all shared in services provided.

In the lending field, the role of HPs is also of some significance—although only 15 lender members reported the dollar volume of their lending activities to HPN for this study. These 15 had over $1.1 billion in loans outstanding in 2004. This compares (very roughly) to a $5.7 billion combined value of loans somewhat earlier (2001) for 512 community development financial institutions.[9] Again a small number of HPs shows at least in aggregate and on average a substantial portion of broader activity. HP lenders actually financed more housing in aggregate than they developed. Since founding, HPN members in total financed over 243,000 housing units, including nearly 220,000 rental units, with debt capital alone.

In sum, HPs warrant attention because cumulatively they play a very significant role in the development and operation of affordable housing and especially rental housing broadly; in delivering a variety of services on a major scale; and, more suggestively, in the financing of housing efforts by community development lenders. And they are individually sufficiently significant producers that their modes of operation deserve analysis, potentially to find common elements that help them become effective. But to date, they have received very little systematic study, either to measure their outputs or to learn about their practices and needs. Basic information about productivity and how it is brought about has not been previously available.

The Urban Institute was engaged to perform a study to obtain and analyze member information, in order to address the three issues of production, commonalities in approach to their business, and policy concerns. The study draws on an extensive mail survey of member organizations, a shorter survey designed to obtain at least basic production information about nearly every member, and site visit interviews at eight HPN organizations with key staff, board members, and partners. The Appendix contains additional specifics about study methods. As

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[7] It is important to remember that nonprofits such as CDCs and similar organizations are often larger producers of other outputs including nonresidential real estate projects than are HPs and may deliberately moderate housing production in order to achieve other goals such as neighborhood revitalization. On the other hand, we shall see that HPN members have other significant functions (besides housing production) as well.

[8] Less overlap for individuals receiving multiple services.

[9] From website: http://www.cdfi.org/uploader/files/cdp%20brochure%20final.pdf.

the very first systematic research about housing partnerships, the study is necessarily and by design primarily descriptive of the housing partnership approach and results. Further work will be needed to analyze fully the factors that help HPN members to succeed and grow and to compare their performance and growth to that of other sectors of the broader affordable housing community.

In the three chapters that follow, this report addresses in turn the findings of the study regarding:

- Production of the multiple products HPN members generate,
- HPN members' business model, and
- Issues of public and private policy faced by HPN members.

The findings should allow HPN and potential supporters and partners to assess more accurately the value of HPs work, the means by which members accomplish their goals, and some of the ways that their efforts might be further enabled.

CHAPTER 2: HPN MEMBERS' PRODUCTION OF GOODS AND SERVICES

Introduction

This chapter analyzes information provided by HPN members in surveys that included questions regarding their primary production outputs: housing and other real estate development, lending, property management, and resident and community services. HPN members received an initial survey with these and many other questions. The response rate, while very satisfactory for many issues did not supply a full "census" of numerical outputs. Therefore, HPN members were sent a supplemental survey that included far fewer questions and heavily emphasized basic information about outputs, in order to increase the returns. The information presented in this section analyzes the data provided by HPN members in their responses to both surveys. Key findings in this chapter include that:

- HPs produce large quantities of mostly rental housing, and the numbers have been growing sharply in recent years. Production is concentrated heavily among a dozen developers, but many more HPs are large producers compared to other nonprofits.
- HPs perform property management for a large majority of the units and properties they own or control. Most deliver services—home purchase counseling and many others—to building residents and/or other community members as well.
- While fewer HPN members are lenders, they have in aggregate financed more units than HP developers have produced, most commonly as providers of development finance for rental housing.

Cumulative "production" in 2004 alone reached as many as 45,000 households' housing units through development and finance and 81,000 families with housing counseling and other services.[10]

The remaining portions of this chapter are organized as follows. We first present analyses of real estate development activities, which include housing production and property management. Next is an analysis of lending and equity investments for HPN members that participate in such transactions. We conclude with an analysis of resident and community services provided by HPN members.

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[10] The exact number depends on how many overlaps there may be, for example with an HP providing partial financing for a home it also develops.

Real Estate Development Activities

A total of 63 HPN members, out of 71 respondents, indicated in their supplemental survey that they participated in real estate development activities, which include direct and active involvement in building and/or land acquisition, financial structuring and packaging, new construction, rehabilitation, obtaining zoning and/or entitlements, sales and marketing, or acquisition without rehabilitation, asset management, property management, investor relations, and compliance or compliance monitoring of units intended for year-round occupancy by individuals or families.

Aggregate Housing Production

In aggregate, the 63 HPN members that reported data have developed about 167,000 housing units since their founding, of which 19,867 (12 percent) were completed in FY 2004. The mean number of units produced by each HPN member since founding is 2,654, while the median is 1,884. The initial survey included questions that asked respondents about their total production between 2000 and 2004. As shown in Table 2.1, 33 respondents reported that they produced slightly more than 30,000 units in that five year period. The mean production for each HPN member that reported data for that five-year period is 916 units; the median production for that period is 623 units.

Table 2.1. HPN Member Housing Production Summary

	# of Units		
	Since Founding	**2000-2004**	**2004**
Total	167,187	30,220	19,867
Mean Total Units	2,654	916	315
Median Total Units	1,884	623	96
Mean Rental Units	2,194	811	281
Median Rental Units	1,181	479	64
Mean For-Sale Units	447	104	23
Median For-Sale Units	166	78	7
N	63	33	63
Source: HPN member surveys			

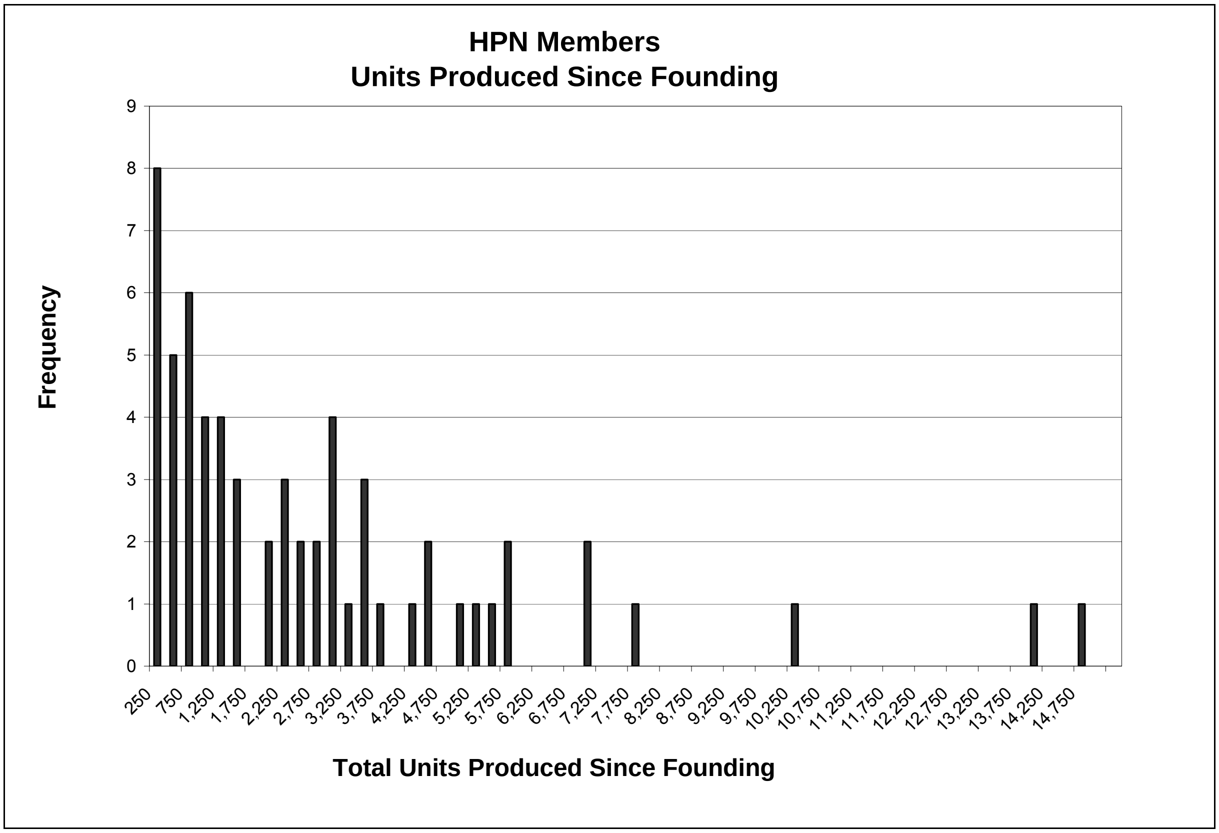
While the average HPN member produced about 2,700 units since its founding, relatively few members account for a large share of the total 167,000 units produced. Eleven HPN members (out of 63 that provided data) produced at least 5,000 total units since founding. These 11 organizations, listed in Table 2.2, representing 17 percent of the developer HPN members, produced a total of 87,000 units since their founding, accounting for 52 percent of all units produced. This relatively concentrated production among a small number of HPN members explains the difference between the mean (2,654) and median (1,864) total units produced since founding.

Table 2.2. HPN Members with at Least 5,000 Units Produced Since Founding

HPN Member	Total Units Produced Since Founding
National Church Residences	14,746
Mercy Housing Inc.	13,790
Bridge Housing Corporation	10,184
Settlement Housing Fund Inc.	7,600
Greater Miami Neighborhoods Inc	7,000
The Community Preservation Corporation	6,781
Phipps Houses Group	5,660
Action Housing Inc	5,658
Mid Peninsula Housing Coalition	5,468
Community Housing Partners Corporation	5,227
The Southern California Housing Development Corp.	5,000
Total	87,114
Source: HPN member surveys	

The histogram in Figure 2.1 presents the full distribution of HPN members' total production since founding. While 11 HPN members produced at least 5,000 units since founding, eight produced no more than 250 units, and 23 produced no more than 1,000 units. In part, this difference is due to the length of time that these organizations have been producing housing. On average, the 11 HPN members that produced at least 5,000 units are slightly less than 27 years old, four years older than the mean for the overall HPN member respondent population, whereas the 23 members that produced less than 1,000 units are, on average only 17 years old. However, not all of the difference in production can be explained by differences in organizational age.

Figure 2.1. Histogram for Total Units Produced Since Founding



Annual Housing Production

Some HPN members such as Action Housing have been in existence for nearly 50 years, while others such as Century Housing are relatively young: between 10 and 15 years old. Obviously an organization's total production is influenced by the time it's been developing housing. To correct for this factor we calculated an HPN member's average production (total, and by tenure mix) for each year since founding and also calculated HPN members' average production per year between 2000 and 2004.

Table 2.3 presents the results of these calculations. The mean annual number of units produced by an HPN member since its founding is 121. Therefore, the ten year difference in average age between high housing producers (those that produced at least 5,000 units) and low housing producers (those that produced fewer than 1,000 units) does not fully account for the difference in production. Big cumulative developers are both large producers each year and relatively long-lived.

Table 2.3. HPN Members' Annual Housing Production

	Annual # of Units		
	Since Founding	**2000-2004**	**2004**
Mean Total Units	121	173	315
Median Total Units	66	97	96
Mean Rental Units	99	153	281
Median Rental Units	53	64	64
Mean For-Sale Units	22	20	23
Median For-Sale Units	8	5	7
N	56	33	63
Source: HPN member surveys			

Annual production between 2000 and 2004 is higher than for all years since founding: HPN members produced a mean of 173 units annually over that five year time period. This increase in annual production between the since founding and 2000-2004 period results solely from higher numbers of rental units, since the mean number of for-sale units produced annually is slightly lower than the same since founding and in 2000-2004, as detailed in the following discussion.

Annual 2004 Housing Production

HPs development of housing increased substantially from the network members' early years to the present. Annual housing production rose during the 2000-2004 period compared to earlier years, and was higher in FY 2004 than production per year in 2000-2004 combined. The mean number of units produced by HPN members in 2004 was 315 units, which is about 1.8 times as great as the mean annual production per HPN member in 2000-2004 and 2.6 times greater than in all of the years since founding.[11]

As with total production, a small number of HPN members produced a disproportionately large number of units in FY 2004. The five respondents listed in Table 2.4 produced at least 1,000 units in FY 2004, and account for just over 57 percent of the total 19,867 units for all 63 respondents that reported residential production data for FY 2004.

[11] The differences between mean annual production since founding and during 2004 are clearly statistically significant (t-test, 0.1 significance level in both one- or two-tailed tests). The comparison between 2000-2004 and both since founding and 2004 alone are somewhat less statistically clear—likely because the 2000-2004 period was measured only in the original survey of members, returning only 33 response instead of the 63 for the other two periods. These latter differences are statistically significant at the 0.1 level assuming a null hypothesis of continuing growth and thus a one-tailed t-test, but do not reach that level of significance in a two-tailed test (null hypothesis of either growing or declining production over time).

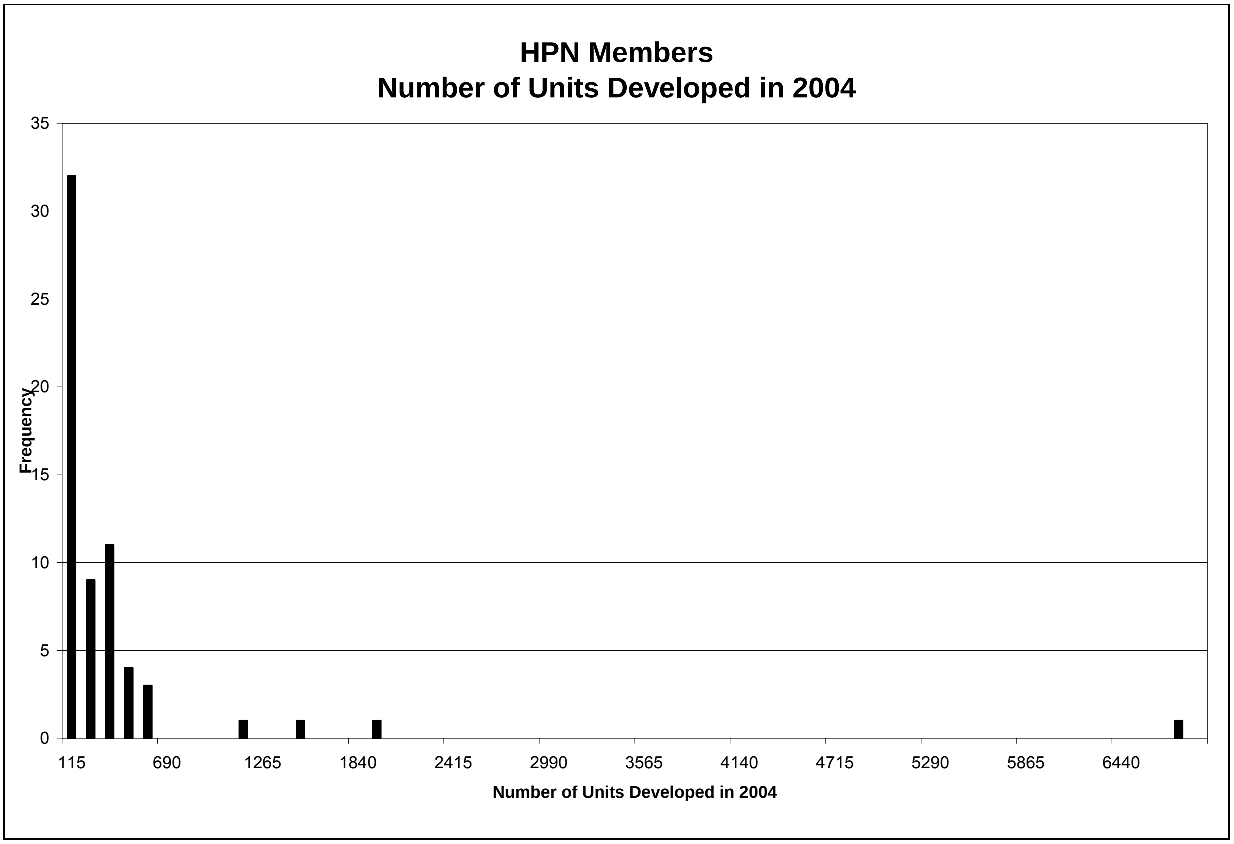
One HPN member—Community Preservation Corporation (CPC)—produced at least 1,000 housing units in FY 2004 and also originated at least $10 million of loans in that same period. CPC, uniquely among survey respondents, has substantial capacity for large real estate development and lending activities.

Table 2.4. HPN Respondents with at Least 1,000 Units Produced in FY 2004

HPN Member	Total Units Produced in FY 2004
The Community Preservation Corporation	6,761
Homes For America	1,949
Mercy Housing Inc.	1,416
Bridge Housing Corporation	1,125
Total	11,251
Source: HPN member surveys	

While four HPN members each produced more than 1,000 units in FY 2004, as shown in the histogram presented below, 32 respondents (nearly half) indicated that they produced less than 115 total units in that period. Thus the high level of HPN housing production in FY 2004 again results significantly from the outputs of a relatively small number of organizations (see Figure 2.2). As we shall see shortly, however, even the "small" HPN housing producers are quite large developers compared to other groupings of companies.

Figure 2.2. Histogram of Total Units Produced per HPN Member in FY 2004

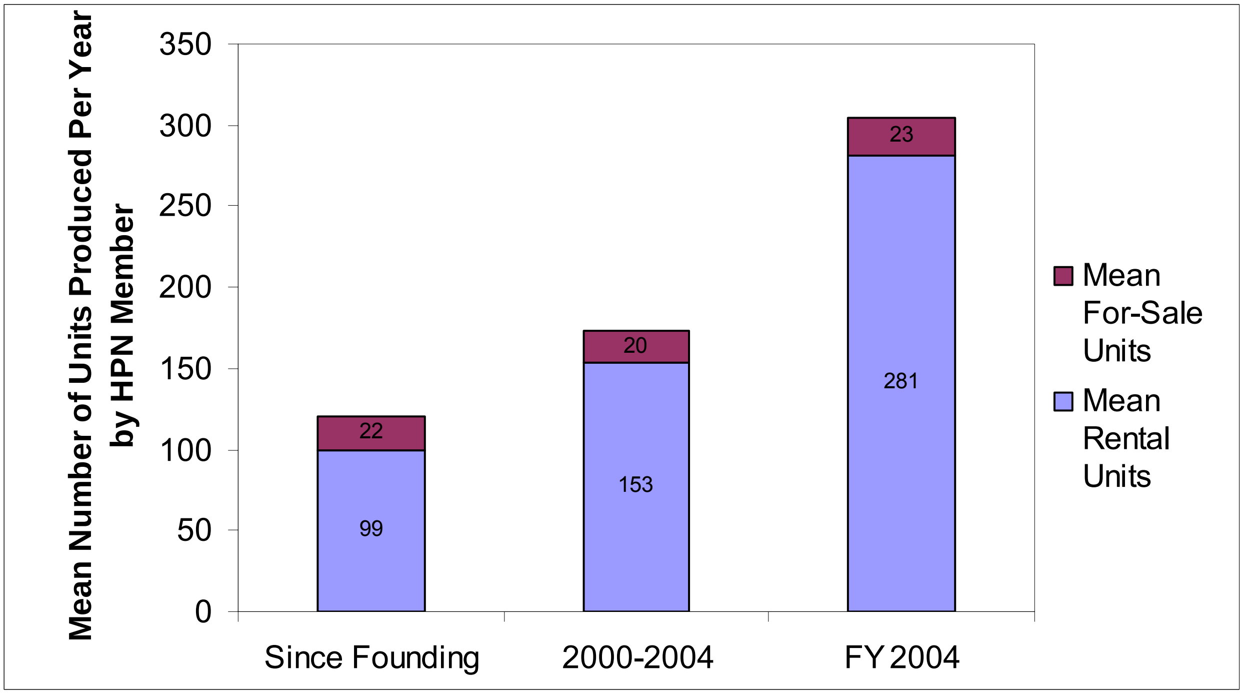


Tenure Mix of HPN Produced Housing Units

Without regard to the period, HPN respondents are much more likely to produce rental, rather than for-sale units (see Figure 2.3). Since founding, rental units account for 83 percent of the average member's production, 89 percent of units produced between 2000 and 2004, and 92 percent of units produced in FY 2004.[12] While the tenure mix has not changed dramatically over time, the number of rental units produced by HPN members in FY 2004 is much greater than in the average since founding or in the 2000-2004 time periods. The number of for-sale units was much more fixed.

[12] The tenure analysis does not include Great Lakes Fund or Ohio Capital Corporation for Housing. Both HPN members provided data regarding their overall housing production, but did not break-out this information by unit tenure.

Figure 2.3. Tenure Mix of Units Produced Annually by HPN Members



Given that rental housing accounts for such a large share of units produced by HPN members, it is not surprising that 77 percent of HPN members indicated that rental housing construction was a priority between 2000 and 2004. Sixty-six percent of HPN members indicated that constructing for-sale housing was a priority for the organization during that period; these HPN members accounted for 95 percent of for-sale units constructed between 2000 and 2004. Therefore, the extent to which an organization places a priority on developing for-sale units seems to influence the tenure mix of the units developed by that HPN member.

Priorities and Production Levels

The number of an organization's priorities influences its production: more priorities, more total production. Of 14 potential organizational priorities between 2000 and 2004, the mean selected by an HPN member was slightly more than five. No respondent selected fewer than two priorities, while nine was the maximum number of priorities selected by HPN members. Between 2000 and 2004, the 50 percent of HPN members with four or fewer priorities accounted for 32 percent of all units produced in that period. Conversely, 29 percent of HPN respondents selected at least seven organizational priorities between 2000 and 2004; these members produced 39 percent of all units developed over that period. This pattern may result from organizational capacity: perhaps HPN members with more priorities are able to produce more housing units because they have staff and other institutional resources to accomplish a greater number of objectives, including housing production of various kinds. Alternatively, a larger set of priorities may open an expanded array of funding and other opportunities that lead to production

HPN Member Comparison to Other Residential Housing Developers

HPN members are large and sophisticated housing developers. The 63 members that reported data developed a total of 167,187 units between their founding and FY 2004; the mean number of units produced by an HPN housing developer since its founding is 2,654. Total lifetime production by HPN members is quite similar to the aggregate housing production nonprofits produced with the assistance of the Enterprise Foundation or of LISC over the intermediaries lifetimes (see Table 2.5). The mean figure—housing developed per producer—appears likely to be much greater than those of other nonprofit developers.

Enterprise indicates there are about 2,400 CDCs and others it has aided and LISC about 2,800, compared to 84 total members and 63 reporting developers for HPN. HPN members on average produced 34 times more housing units than organizations did with Enterprise Foundation aid and financing and 46 times more than organizations did with aid from LISC.[13] Even after taking into account that the LISC and Enterprise figures count only the production actually assisted by the intermediaries—not that by the same organizations but without LISC or Enterprise aid—the nonprofits they assist apparently do less housing production per year compared to the typical regional nonprofit in the HPN. However, the differences between HPN and LISC and Enterprise average lifetime production per nonprofit decline significantly if we change the comparison to areas of more LISC/Enterprise concentrated activity such as the 23 Living Cities sites.[14]

A more direct comparison can be made between HPs' production and that of "CDCs" surveyed by the National Congress for Community Economic Development (NCCED), because the NCCED data estimates total production by the CDCs (rather than just that assisted by any intermediary). HP production aggregates to a significant percentage of the NCCED production from many more developers. And the mean housing production by HPN members since founding is greater than for all "CDCs" as estimated by NCCED. According to a recent survey of

[13] It is very important to note that Enterprise and LISC counts refer to the number of housing units they have assisted in development, not the full production (including units not assisted by those intermediaries) by the organizations assisted. Also note that the HPN members, LISC- assisted CDCs and others, and the Enterprise-assisted organizations overlap and projects duplicate.

[14] Again noting that LISC and Enterprise figures do not include nonprofits production not assisted by those organizations. Also those nonprofit CDCs, etc. create very significantly more nonresidential development and perhaps other neighborhood revitalization activity than do HPs.

CDCs, 4,600 such organizations produced a total of 1,252,000 housing units since founding: an average of 271 units per CDC.[15] HPs' production from 84 members was more than one-eighth the size of the NCCED total. The average production for the 4,600 CDCs is about one-tenth of the mean since-founding production of HPN members (2,600 units). In addition to a higher mean production level, 92 percent of HPN members have produced at least 100 units since their founding, compared with 44 percent of CDCs through 2004.[16]

Table 2.5. Comparison of HPN Members' Total Housing Production to Other Organizations' Total Housing Production

Organization*	Total**	Affiliates	Average Affiliate's Total Production Since Founding
Housing Partnership Network	167,187	63	2,654
Local Initiatives Support Corporation	196,000	2,800	70
Enterprise Foundation	190,000	2,400	79
Habitat for Humanity US (through 2002)	44,617	1,651	27
CDCs	1,252,000	4,600	271
Sources			
LISC Homepage	http://www.lisc.org/section/aboutus/accomplishments/		
Enterprise "About Us"	http://www.enterprisecommunity.com/newsevents/mediakit_subs/enterpriseaboutus_03-06.pdf		
Habitat for Humanity US	http://www.habitat.org/giving/report/2002/AffiliateHouseNos_02.pdf		
National Congress for Community and Economic Development.	http://www.ncced.org/documents/NCCEDCensus2005FINALReport.pdf.		
*We do not have lifetime production data for nonprofits assisted by NeighborWorks America, another important intermediary. Annual production for 230 affiliates was at about an 8,100 unit rate in the first half of FY2006, not including important NWA activity in home purchase and smaller repairs.			
**These figures include only the nonprofits' production using aid from the intermediary organization in the left hand column.			

[15] National Congress for Community and Economic Development. 2006. *Reaching New Heights: Trends and Achievements of Community-Based Development Organizations, 5th National Community Development Census*. Report: pg. 4.

[16] *Ibid*.: pg. 11.

HPN members' annual output is also larger than that of many private for-profit developers. According to the National Association of Homebuilders, the median number of units started by its members that develop multifamily units is 57 annually, compared to 96 units completed for HPN members. Only 14 percent of NAHB members have started more than 500 multifamily units in a given year,[17] whereas 22 percent of HPN members exceeded that level in 2004 alone. HPN members, given this distribution, typically produce units at a rate higher than that for a majority of NAHB members. At least as producers of rental housing, HPs are high volume developers.

Nonresidential Development

Some HPN members develop properties for nonresidential uses. Some of these developments are located on-site of residential developments and others off-site. We analyze both types of development below.

On-Site Nonresidential Property Development

Of the 63 HPN members that provided information about residential real estate development activities, 20 had completed at least some on-site nonresidential development since founding, and nine reported such activity in FY 2004 (Figure 2.6). Overall, HPN members have developed a total of about 2.3 million square feet of on-site nonresidential development since founding. The total amount of such space created in FY 2004 (91,000 square feet) accounts for only 4 percent of this total.

Community centers are the most common on-site nonresidential development uses reported by HPN members: 20 had such a development since founding while nine reported including this use in a FY 2004 development. While community centers are most often reported, retail spaces included in on-site developments are often larger. In fact, retail space accounts for 43 percent of the total 2.3 million square feet of all on-site nonresidential space developed by HPN members since their founding, and 50 percent of such space developed in FY 2004.

[17] National Association of Homebuilders. 2004. *Member Profile. National Association of Homebuilders*. NAHB's Economics Group. Report. Mimeo: pg. 6.

Table 2.6. Summary of On-Site Nonresidential Development by HPN Members

Type of Use	Total Square Footage Developed Since Founding through FY 2004	% of Total	N	Total Square Footage Developed in FY 2004	% of Total	N
Office	214,167	9%	16	12,750	14%	5
Retail	987,389	43%	18	45,800	50%	4
Industrial	-	0%	-	-	0%	-
Business incubator	-	0%	-	-	0%	-
Educational/Schools Facilities	29,300	1%	6	500	1%	2
Health Clinics/Facilities	412,667	18%	5	-	0%	-
Senior Centers	14,500	1%	4	1,000	1%	1
Community Centers (including social services, recreation, etc.)	513,530	22%	20	28,895	32%	9
Cultural Facilities	8,000	0%	2	-	0%	-
Other	143,224	6%	8	2,051	2%	
Total	2,322,777	100%		90,996	100%	
Source: HPN member surveys						

Off-Site Nonresidential Property Development

Fewer HPN respondents reported completing any off-site nonresidential development since founding or on FY 2004. HPN members developed 1.3 million square feet of off-site nonresidential development since founding, or 50 percent of the total such space developed on-site (Figure 2.7). This pattern is nearly identical for FY 2004: HPN members developed 51,000 square feet of off-site on-residential space in that period, or 56 percent of the FY 2004 on-site square footage. The FY 2004 off-site space accounts for four percent of the total such space developed by HPN members since their founding.

Office space is the most commonly reported off-site use: seven respondents indicated that they had developed office space since founding. While not the most common use, retail accounted for the single largest amount of nonresidential off-site square footage developed by HPN members since founding, with nearly 400,000 square feet of such space. Retail space, then accounts for the largest share of nonresidential space developed by HPN members, whether off-site or on-site.

Table 2.7. Summary of Off-Site Nonresidential Development by HPN Members

Type of Use	Total Square Footage Developed Since Founding through FY 2004	% of Total	N	Total Square Footage Developed in FY 2004	% of Total	N
Office	205,700	16%	7	39,500	77%	2
Retail	399,600	31%	6	-	0%	-
Industrial	85,283	7%	2	-	0%	-
Business incubator	-	0%	-	-	0%	-
Educational/Schools Facilities	155,000	12%	4	3,250	6%	2
Health Clinics/Facilities	185,500	14%	4	-	0%	-
Senior Centers	22,000	2%	2	1,000	2%	1
Community Centers (including social services, recreation, etc.)	225,283	17%	6	7,500	15%	2
Cultural Facilities	900	0%	1	-	0%	-
Other	8,900	1%	2	-	0%	-
Total	1,288,166	100%		51,250	100%	
Source: HPN member surveys						

Property Management

Many HPN members manage their own properties in order to ensure that they are managed effectively and to capture a management fee. The results in Table 2.8 report responses that asked HPN members to identify, for rental units, whether they manage (directly or through a controlled subsidiary) and control (through a nonprofit, a controlled subsidiary, or a controlled general partner); manage but not control; and control but not manage their rental units.

Table 2.8. Summary of Property Management for HPN Members as of FY 2004

	Number of Projects	% of Total	N	Number of Units	% of Total	N
Managed and Controlled	960	66%	42	70,913	56%	43
Managed but not Controlled	158	11%	22	18,613	15%	22
Not Managed but Controlled	346	24%	36	37,229	29%	37
Total	1,464	100%		126,755	100%	
Source: HPN member surveys						

The most common arrangement is that the HPN member manages and controls its rental projects: two-thirds of *projects* are both managed and controlled by the HPN member. The projects managed and controlled by HPN members contain somewhat fewer rental *units*, with only 56 percent of rental units managed and controlled by HPN members. Projects managed and controlled by HPN members contain somewhat fewer units, on average, than projects that are either managed but not controlled or not managed but controlled by HPN members. It may be that HPN members can more efficiently manage projects with smaller numbers of units than a third-party, especially when they are also doing asset management, or that members are forced to manage the smaller projects by for-profits' unwillingness to do so.

Lending

Some HPN members, in addition to developing real estate or less often instead of development, provide investment capital (debt and/or equity) that supports a number of purposes. This section analyzes HPN lender members' lending patterns. HPN lender members originated a total of $6.9 billion of loans since their founding. Rental housing development, by far accounts for the largest share of these loans: 71 percent of the total volume. The next two purposes by dollar volume were for-sale housing development (21 percent) and home purchase loans (4 percent). Table 2.9 summarizes the key lending figures.

Table 2.9. HPN Lender Member Dollar Volume Lending Summary

Loan Purpose	Total Loans Closed Founding through FY 2004			Loans Closed in FY 2004 Only		
	$ millions	% of Total	N	$ millions	% of Total	N
Business Loans	$26.1	0%	4	$6.5	1%	4
Home Purchase	260.1	4%	14	42.2	5%	12
Home Improvement	67.8	1%	6	12.8	2%	6
Rental Housing Development	4,958.4	72%	15	453.7	56%	10
For Sale Housing Development	1,410.5	20%	9	246.5	30%	6
Community Facilities/Organizations	133.8	2%	6	28.2	3%	5
Other	70.9	1%	7	19.0	2%	6
Total	$6,927.6	100%	15	$809.0	100%	
Source: HPN member surveys						

Loan purposes for HPN member financed transactions closed in FY 2004 are different from those that have been completed since founding. Rental housing development accounts for only 56 percent of all loans originated in FY 2004, as compared to 72 percent since founding. This 16 percentage point shift away from rental housing development lending in FY 2004 is reflected in higher shares for lending in FY 2004 to support for sale housing development (ten percentage points), and one percentage point increases in the remaining categories.

The Community Preservation Corporation (CPC) did not report the types of loans that remain outstanding as of FY 2004. As a result, we analyze the mix of purposes for loans that remain outstanding as of FY 2004 for non-CPC HPN lender members (see Table 2.10). Rental housing development accounts for nearly the same proportion of loans outstanding as of the end of FY 2004 as of loans originated by HPN lender members since their founding.

On the other hand, loans for home purchase represent only 16 percent of loans originated since founding, but account for 27 percent of loans outstanding. This difference is likely the results of the relatively longer term loans (perhaps 30 years) for home purchase, originated by HPN lender members, as compared to loans originated to support for-sale housing development. Such loans comprise 17 percent of all loans originated by HPN lender members since founding, yet only six percent of loans outstanding. Because these loans likely fund pre-development or construction activities over a relatively short term, they account for a lower share of outstanding loans than of those originated.

Table 2.10. Comparison of Loans Closed Since Founding to Loans Outstanding as of FY 2004, by Purpose, Without CPC

Loan Purpose	**Total Loans Closed Founding through FY 2004**			**Loans Outstanding FY 2004**		
	$ millions	% of Total	N	$ millions	% of Total	N
Business Loans	$26.1	2%	4	$11.7	3%	3
Home Purchase	260.1	16%	14	109.9	27%	9
Home Improvement	67.8	4%	6	23.4	6%	6
Rental Housing Development	747.2	47%	15	193.6	47%	12
For Sale Housing Development	276.7	17%	9	23.0	6%	6
Community Facilities/Organizations	133.8	8%	6	34.2	8%	5
Other	70.9	4%	7	18.8	5%	6
Total	$1,582.5	100%	15	$414.6	100%	12
Community Preservation Corporation	$5,345.0			$707.2		
Total with the Community Preservation Corporation	$6,927.6			$1,121.7		
Source: HPN member surveys						

The $800 million loan volume originated by HPN lender members in FY 2004 represents 12 percent of members' lending origination since founding. The lending volume in FY 2004 per HPN lender member is much larger than the typical annual lending since founding. The mean annual lending volume since founding is $10 million, while the median per member annual volume is $1.4 million. The mean HPN lender member origination volume in FY 2004 is $30.0 million, and the median is $4.5 million. Overall, then, HPN members originated a far greater dollar volume of loans in FY 2004 than in typical years since their founding.

Table 2.11 shows the HPN lender members that originated at least $100 million worth of loans since their founding. As discussed earlier, CPC's volume dwarfs the next largest HPN lender member: The Reinvestment Fund. The seven HPN members that originated at least $100 million of loans since their founding account for 95 percent of the $6.9 billion worth of loans originated by all HPN lender members.

Table 2.11. HPN Lender Members that Have Originated at Least $100M of Loans Since Founding

HPN Member	Total Originations Since Founding
The Community Preservation Corporation	$5,345,029,063
The Reinvestment Fund	335,700,818
Century Housing	298,016,700
Neighborhood Housing Services Of Chicago	202,235,000
Low Income Investment Fund	170,937,325
Rural Community Assistance Corporation	135,772,902
Mercy Housing Inc.	106,025,498
Total	$6,593,717,306
Source: HPN member surveys	

Table 2.12. HPN Lender Members that Have Originated at Least $10M of Loans in FY 2004

HPN Member	Total Originations in FY 2004
The Community Preservation Corporation	$564,020,000
The Reinvestment Fund	59,327,296
Neighborhood Housing Services Of Chicago	34,903,578
Low Income Investment Fund	32,293,395
Housing Development Fund	25,151,560
Rural Community Assistance Corporation	22,206,280
National Affordable Housing Trust	12,000,000
Great Lakes Capitol Fund	11,232,000
Total	$761,134,109
Source: HPN member surveys	

CPC originated the most dollars in loans in FY 2004; nearly ten times the next largest lender in that year: The Reinvestment Fund's origination volume in FY 2004 (Table 2.12). Similar to the pattern of lending since founding, the eight HPN lender members that originated a high dollar volume of loans in FY 2004 account for 94 percent of lending volume for that period.

Table 2.13 summarizes information about the number of loans closed by HPN lender members, rather than the dollar volume of these loans. CPC did not report any information about the number of loans; as a result, the information reported below does not include any details about the number of loans associated with that organization's $5.3 billion worth of originations since founding, or the $564 million worth of loans originated by CPC in FY 2004.

Table 2.13. HPN Member Number of Loans Summary without Community Preservation Corporation

Loan Recipient		Total Loans Closed Founding through FY 2004			Loans Closed in FY 2004 Only		
		Number of Loans	% of Total	N	Number of Loans	% of Total	N
Businesses		187	1%	4	34	3%	5
Individuals	Home Purchases	13,000	62%	14	660	51%	14
	Home Improvements	392	2%	6	50	4%	5
Organizations		7,454	35%	13	524	42%	4
Other		72	0%	7	14	1%	3
Total		21,025	100%		1,247	100%	
Source: HPN member surveys							

Non-CPC HPN lender members originated just over 21,000 loans since their founding, and about 1,300 loans in FY 2004. The mean number of loans originated per year for non-CPC HPN lender members is 43; the median number is 21. These figures are slightly lower than in FY 2004 in which HPN lender members, excluding CPC originated a mean of 57 loans (33 percent greater than the mean since founding) and a median of 19. This finding suggests that HPN members, while not originating substantially more loans in FY 2004 compared to prior years, are providing loans for larger amounts, since the dollar volume in FY 2004, even without CPC was 2.6 times greater than the average year's origination volume for those HPN lender members.

Home purchase loans account for the largest proportion of loans originated by Non-CPC HPN lender members; such loans account for 62 percent of all loans since founding, and 51 percent of loans originated in FY 2004. Loans to organizations or for community facilities comprise the next largest category of the number of loans originated since founding and in FY 2004.

HPN lender members have financed a total of 243,000 housing units since founding, and financed 18,200 in FY 2004 (see Table 2.14). HPN lender members overwhelmingly financed rental units: 89 percent of units financed since founding and 87 percent of units financed in FY 2004 are rental units.

Table 2.14. Number of Housing Units Financed by HPN Lender Members

	Number of Housing Units Financed					
Type of Unit	Total Number of Units Since Founding through FY 2004	% of Total	N	Total Number of Units in FY 2004 Only	% of Total	N
Rental	216,223	89%	20	15,803	87%	16
For-sale (with real estate development loans, not purchase loans to individuals)	27,197	11%	16	2,362	13%	13
Total	243,420	100%		18,165	100%	
Source: HPN member surveys						

While the tenure mix of units financed in FY 2004 is about the same as in previous years, the number of units is greater. Since their founding, lender members financed a mean of 492 units per year and a median of 69 units per year. In FY 2004 the mean number of units financed by lender members was 673, and a median of 150. This increased level of activity is consistent with the higher dollar volumes and number of loans originated by HPN lender members in FY 2004.

Table 2.15. Summary of Types of Loans Originated by HPN Lender Members

Type of Loan		Since Founding through FY 2004		FY 2004 Only	
		Number of Respondents That Provided Such a Loan	Number of Respondents That Did Not Provide Such a Loan	Number of Respondents That Provided Such a Loan	Number of Respondents That Did Not Provide Such a Loan
Commercial	Fixed Assets	3	23	3	24
	Working Capital	3	23	3	24
Community Services/Nonprofit	Fixed Assets	2	23	2	24
	Working Capital	20	5	22	17
Real Estate	Acquisition	17	12	17	13
	Predevelopment	15	14	14	14
	Construction	14	14	16	14
	Mezzanine	4	24	4	24
	Permanent	17	11	18	13
	Home-purchase	13	16	13	17
Source: HPN member surveys					

HPN lender members provide a wide variety of loans, including commercial, community services and real estate related. As indicated in Table 2.15, commercial lending is not as widespread among HPN members as are community services and real estate. Since founding, only three HPN members originated commercial loans for either fixed assets or working capital.

Conversely, 20 HPN lender members have provided working capital loans to community services or nonprofit organizations since founding. Real estate loans are also commonly provided by HPN lender members: 17 have provided acquisition loans since founding. While HPN members often provide real estate loans, mezzanine financing for real estate transactions is not commonly provided: only five HPN lender members offered such loans since founding. The types of loans offered by HPN lender members since their founding are nearly identical to those offered in FY 2004: there are very few differences between the two periods with respect to loans provided by HPN lender members.

In addition to providing debt financing, some HPN members make equity investments that support real estate development activities (see Table 2.16). Since founding, 13 HPN members have invested about $1.1 billion of equity that supported the development of slightly more than 46,000 housing units. The mean equity investment for HPN lender members since founding is $4.9 million, while the median equity investment for these members since founding is $65,000. Clearly, many equity investors made only very small investments (lowering the median), while a few made large ones driving up the average. FY 2004's equity investments are substantially greater: the $196 million invested by HPN lender members account for 18 percent of all such investments since founding.

Table 2.16. Summary of HPN Members' Equity Investments

Home Equity Investment	Total Units	N	Total Dollar Amount of Equity Investment	N
Since Founding Through FY 2004	46,281	13	$1,083,284,962	13
FY 2004 Only	7,793	9	$196,781,659	9
Source: HPN member surveys				

The increased pace of equity investments by HPN lender members is reflected in the total number of units supported by these investments in 2004. The 7,793 units supported by equity investments in that year represent 17 percent of the total units supported by HPN lender members' equity investments since founding.

Resident Services

Some HPN members provide a wide range of social services.[18] As shown in Table 2.17, the services targeted to children, young people and teens have had the greatest reach: HPN member programs for this population have served about 92,000 people and 8,500 alone in FY 2004. Community development activities provided by HPN members have served the next greatest number of clients: nearly 77,000 people. Overall, HPN members provided services to more people on average in FY 2004 than in previous years.

In addition to general social services, many HPN members provide services that promote homeownership, including downpayment assistance, pre-purchase counseling and individual development accounts. Moreover, some members support existing homeowners—those they helped purchase a house and at times many others experiencing troubles—through post-purchase counseling and foreclosure prevention. These services are of course consistent with the overall housing objectives of HPN members.

[18] A companion report specifically on the topic of HPs' delivery of services to community members and to residents of their housing projects is also available from HPN. See Rachel Bratt, "Housing Plus: Strategies, Challenges and Potential of Programs Provided by Members of the Housing Partnership Network," May 2006.

Table 2.17. Summary of HPN Members' Social Services

Type of Service	Total Number of People Served Since Founding through FY 2004	N	Mean Number of People Served by HPN Member Per Year Since Founding	Total Number of People Served in FY 2004	N	Mean Number of People Served by HPN Member in FY 2004
Basic skill development (Literacy, ESL, GED)	17,218	18	21	2,407	13	185
Job Training (Computer skills and other employment-related activities)	15,533	21	31	2,457	15	164
Social service programs for children/youth/teens (Day care, after school, sports programs, art and recreation)	92,122	22	144	8,516	14	608
Services for elderly (Meals on wheels, recreation, health services, assistance with activities of daily living, computer instruction, art, recreation)	40,959	17	139	7,173	13	552
Services for special needs populations (Physically or emotionally disabled/substance abusers, homeless. Services may include health, food and counseling programs, art or recreation)	35,276	17	159	1,641	12	137
Family support services (Health care, nutrition, legal counseling, transportation, case management, entitlement advocacy, crisis intervention, support groups, conflict mediation, provision of food, clothes or furniture)	38,361	21	118	11,115	14	794
Community development activities (Organizing neighborhood watch, beautification, and community art (e.g., mural painting) programs, community gardens	76,909	19	89	13,264	11	1,206
Other	3,545	5	50	3,458	2	1,729
Source: HPN member surveys						

Table 2.18. Summary of HPN Members' Homeownership Services

Type of Service	Number of Participants in 2004	N	% of Respondents that developed for-sale units in FY 2004	Number of Households helped to become homeowners in FY 2004	N
Homebuyer Counseling					
Pre-purchase	19,515	27	73.0%	4,860	-
Post-purchase	5,063	25	67.6%	n.a.	n.a.
Foreclosure Prevention	5,270	22	59.5%	n.a.	n.a.
Downpayment Assistance	1,568	24	64.9%	1,153	25
Individual Development Accounts	593	10	27.0%	121	11
Source: HPN member surveys					

In 2004, HPN members provided pre-purchase homeownership counseling to more than 19,000 clients, and nearly 4,900 of those counseled became homeowners (see Table 2.18). Pre-purchase counseling is the most common form of homeownership service offered by HPN members since founding, followed by post-purchase and foreclosure prevention.

Most developer HPs with whom we spoke considered services to residents and to community members—the latter especially as potential homebuyers—to be integral parts of their activities to serve multiple needs of households in their communities and their projects. Those roles are discussed further in Chapter 3 in the context of HPs' missions and priorities.

CHAPTER 3: BUSINESS MODEL

How do HPN members go about conducting their business? What common patterns of practice characterize their activities and might be used to differentiate them from other organizations?

The language of business models provides a tested way to describe the work of HPN member companies. Using one conventional business model outline, we examined five business characteristics of HPN members:

- *Product definition*. What goods and services do they provide?
- *Market scope*. What bundles of customers do they serve?
- *Value chain*. What activities are undertaken to create and distribute products and services? How are value and quality generated; and what dynamics drive growth?
- *Cost structure and profit potential.* How are resources acquired and paid for and “profit” captured?
- *Relationships with networks.* What key links are developed to players outside the organizations and how do they affect the other aspects of the model?

This chapter describes the elements of HPN members’ business model characteristics. We find a lengthy set of commonalities in the ways business is approached and conducted by HPN companies, as well as some significant variations. These commonalities and variations help to explain the successes members have achieved and the challenges they face. Among the key findings in this chapter are that:

- Unsurprisingly HPs’ top priority mission is adding and preserving affordable housing, and the resulting housing development is in fact heavily targeted to very-low and low-income people. But within the broad mission, HPs undertake diverse activities and often significantly revise that mix in response to changing markets and other circumstances.
- Their markets are regional, at least citywide and more often metro-wide or wider; and HPs are often the “go to guys” in affordable housing in their locations.
- The organizations are large in staff and budget compared to housing nonprofits generally, but not complex in structure. Many grew rapidly by taking advantage of some initial kick-start opportunities and then benefit over time from strong long-tenure leadership. Leadership succession is among the challenges they face.
- HPs are serious about increasing financial self-sufficiency but within the context of sustaining their missions.

- Partnerships with civic leaders, private lenders, local governments, and others are important in forming and giving HPs a good start and in obtaining needed resources over time.

Product Definition

Most Housing Partnerships provide a range of products and services, in terms of both major business lines and specific outputs. Members responding to the survey indicated whether they participated in major lines of business that were known in advance to be common within the HPN: real estate development; lending and equity investment; property management; and services (other than the provision of housing units) to residents and other community members. The results are summarized in Figure 3.1. Real estate development is the most universal activity, carried out by 90 percent of all respondents. But most pursued at least two major business lines. Resident services and property management are both engaged in by substantial majorities of the organizations, 80 percent and 60 percent respectively. Each of these two overlap heavily with developers, with three quarters of all HPs doing both development and residential services and all service providers doing some kind of development. A smaller 38 percent do lending or equity investment. The great majority of lenders—85 percent—are also developers, rather than involved solely in financing.

Members also were asked to indicate priorities among possible components of their broad missions. Not surprisingly, Partnerships overwhelmingly described their first priority as adding and preserving affordable housing. Seventy percent reported that as their top priority while no other category had more than 10 percent. Looking at members' top 2 mission priorities, affordable housing still dominates but some other missions emerge at lower but significant priority levels (see Figure 3.2). Seventy-eight percent placed affordable housing production or preservation as in their top two priorities. The others with common mention were, in descending order, a combination of housing and economic opportunity, community revitalization, service-enhanced housing, partnerships for affordable housing, and increasing/conserving homeownership—all at 27 percent or less of members.

Figure 3.1. Main Lines of Business

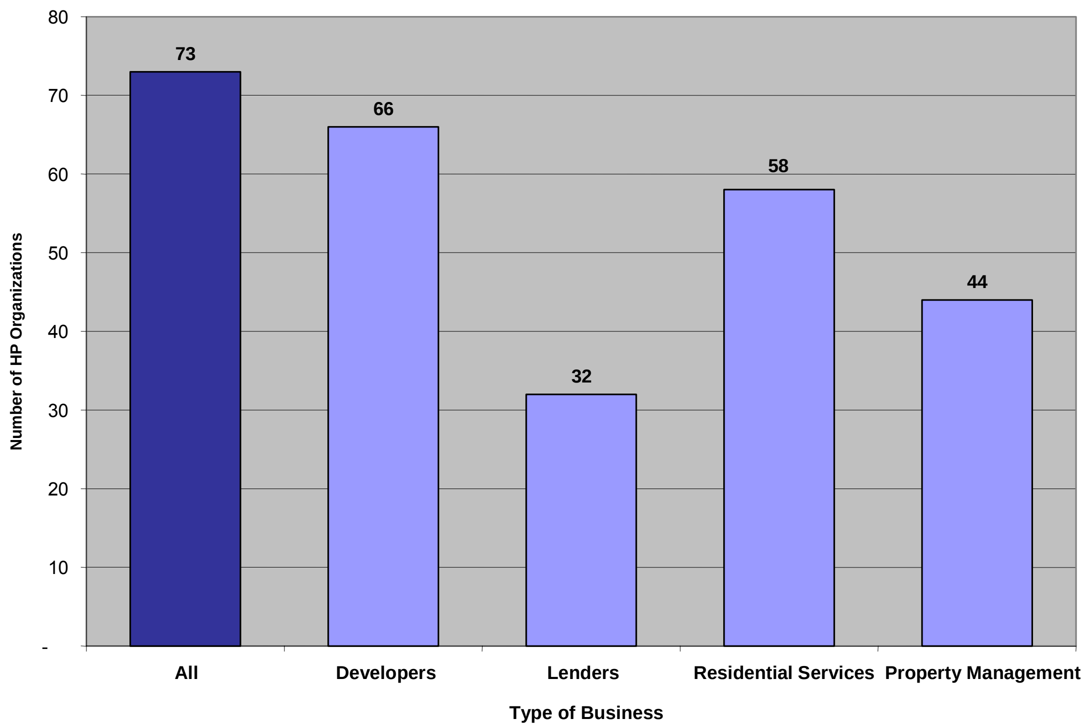
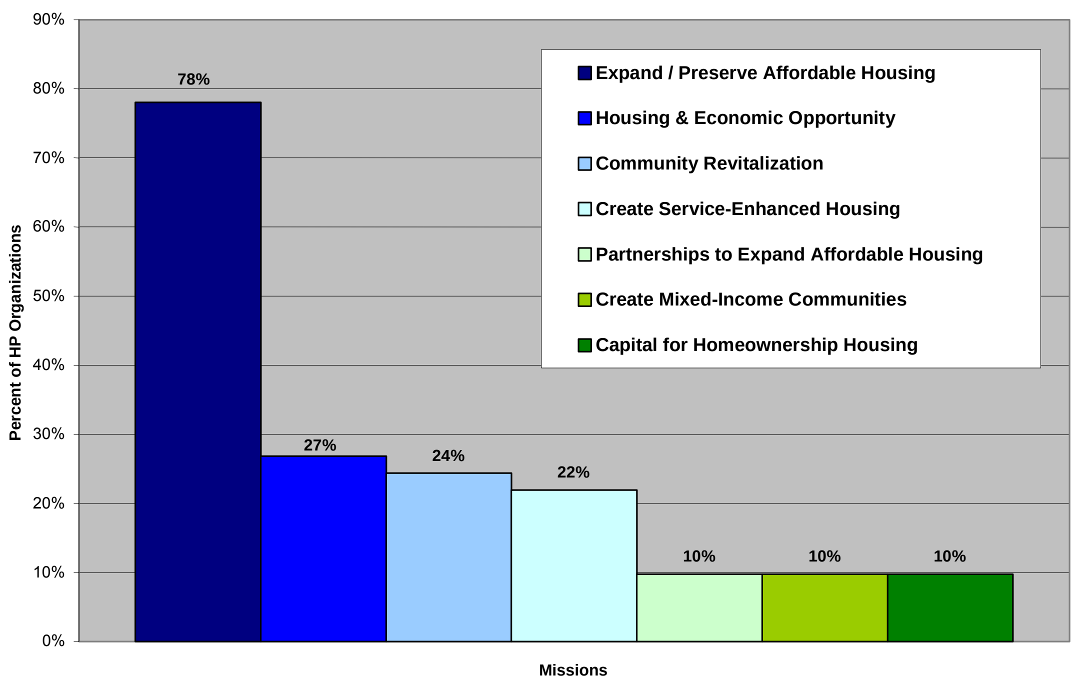
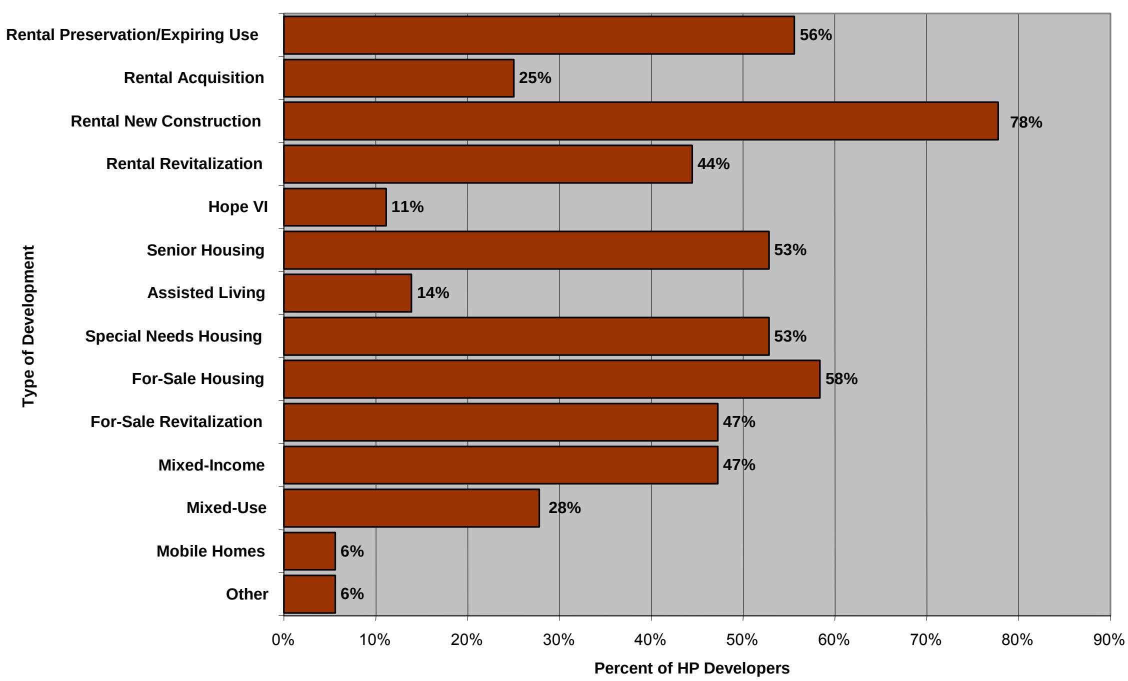


Figure 3.2. Mission Ranked in Organization's Top 2 Priorities



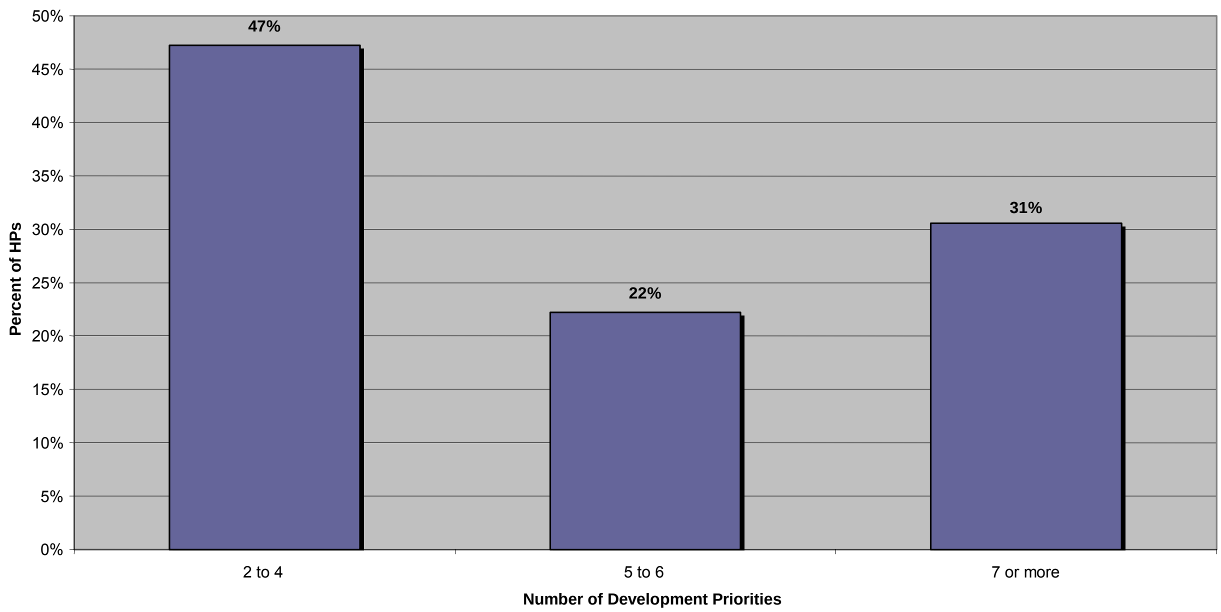
Within housing development, members identified their priorities in terms of project types which they actively pursued in the past two years. Five development categories were designated by over half the organizations, led by new rental construction with over three-quarters of the members (Figure 3.3). Next are two more areas of rental housing work—rental preservation and senior housing—and for-sale housing. Another largely rental category for a specific population, supportive housing, rounds out the five. Clearly, actual production—at nearly 90 percent rental, broadly follows the dominant priority for rental housing of various kinds. The far lower for-sale unit production is highly concentrated among a few HPs.

Figure 3.3. Development Priorities



Individual Housing Partnerships generally were substantially diversified in the types of their housing development work. More than half designated five or more development types as priority projects pursued recently, and 31 percent designated seven or more (Figure 3.4). As we have seen in Chapter 2, this diversity seems to contribute to overall development production rather than detract from it.

Figure 3.4. Percent of HPs by Number Development Priorities



The scale of HP housing developments follows conditions, requirements, and customer needs more than it focuses in any single range. In many HP communities, size of affordable housing projects is limited by lack of vacant land or financial subsidy, by zoning, or by political decision. Some HP projects serving special-needs populations are limited by program standards or preference to smaller scale. Partnerships have been willing to take on small projects to serve special needs or in difficult environs, while also aiming to meet large and growing needs for affordable housing by pursuing larger projects. The organizations we visited generally each had developed projects of a range of sizes.

Housing is not the only kind of real estate development HPs undertake, but it is far larger than all other types of development combined. We saw in Chapter 2 that, even if we assume housing units produced are of very modest average size, they exceed the square footage of all non-housing development by perhaps 100 times.

Most members provide some kind of services to their building residents and/or community neighbors, but the nature and intensity of their participation in delivering services varies substantially. Only about an eighth place a function coupling housing and services as top mission priority, aggregating those pursuing a combination of housing and economic opportunity—likely including assistance in becoming or remaining homeowners or in job training--with those providing a broad range of supportive services to target populations (elderly, disabled, formerly homeless as well as families more generally) in their housing developments.

But half place such service-related objectives in their top two mission priorities. The variety of service approaches among just the eight organizations visited in the study is wide, with members' strategies ranging from providing very little in services, to those providing referrals to other agencies, to those coordinating or contracting with other service providers, to those doing extensive direct service delivery.

Most HPs doing development are not, at least as a top priority, aiming to produce broad community revitalization results in the areas in which they do housing development. Their efforts are more focused on affordable housing and serving households in need than on changing the places in which the housing is located. But a significant minority—nearly a quarter—indicate that community revitalization is in their top two priorities, and nearly a third place it in their top three. This set of HPs somewhat more resemble typical CDCs in program mix, but they are still different from many place-based CDCs because none of the HPs defines a single neighborhood as its sole continuing target area (see Markets and Customers below).

In addition to those HPs giving community revitalization high priority, nearly half describe "for-sale housing as a contributor to community revitalization" as one of the development priorities they have sought to pursue in the past two years. Several of the HPs visited noted that their improvement of a severely distressed major housing project or site in a neighborhood could make an important neighborhood-wide difference. And CMHP exemplifies the powerful effect an HP with a neighborhood revitalization mission can have, using principally but not solely its housing tools.

CMHP Focuses on Neighborhood Revitalization

Charlotte-Mecklenburg Housing Partnership is one of the organizations giving prominence to neighborhood revitalization and at the same time delivering a more typical HP diversity of products. In their first major effort in the revitalization direction, they focused on a small neighborhood that was serving as a major regional hub for the illegal drug trade. CMHP quietly purchased nearly every home in the neighborhood, evicted the drug dealers in collaboration with the police, and rented or sold the homes to new residents. The neighborhood crime rate, highest among all Charlotte neighborhoods, fell to 41st in the city.

CMHP has since collaborated with City government and residents in other neighborhoods to take on concentrated housing and other activities, upon invitation from community members, in consultation with the City about neighborhood choice, and with added City resources with which to carry on concentrated housing activities. CMHP now describes community revitalization as its top mission priority. They have allocated staff and resources to community organizing/public safety and to raising homeownership rates in specific neighborhoods. Resource constraints tend to limit them to one neighborhood at a time, at least for concentrated housing development; and a backlog of neighborhoods has indicated interest in their help.

CMHP is simultaneously a much-diversified housing organization. It maintains major components of work in both rental and ownership areas, though with increased rental emphasis recently. It does projects for families, special needs populations, and the elderly. It lends money for its own owner and rental projects (and used to lend to others' projects while it was tooling up for its own development work). It concentrates on deep affordability but increasingly includes mixed-income projects in its pipeline. And it runs pre- and post-purchase housing counseling and associated Individual Development Account programs.

There remains a very clear difference between CMHP and a neighborhood-based organization. CMHP maintains its city- and county-wide focus, moves from neighborhood to neighborhood as well as developing housing in dispersed locations, and has no single neighborhood (or group) as the core of its operations. This difference—and a heavy concentration on diverse housing activities—characterize HPs' neighborhood revitalization efforts more generally.

As we have seen, the principal types of lending products by dollar volume are rental housing and for-sale housing development loans, while home purchase loans make up the largest number of loans made. As we further noted, few HP lenders focus on that function exclusively. Even TRF, long a lender and research/technical assistance provider, is now moving to take on at least the site assembly role in the development process. The combination of lending and development activities fits with the rather small scale of many HPs' lending business. About a quarter of those lending did $600,000 or less in business in 2004 and the median was under $6 million, not large figures in principally real estate financing.

HPs are also technical assistance providers, as well as direct developers, managers, service providers, and/or lenders. We lack detail for the whole HP population on the specifics of the technical assistance roles. But we do know that for at least three of the eight sites we visited, HPs considered technical assistance a central part of their business. WPHD has a statewide (and beyond) long-running set of competitive contracts with HUD to provide technical assistance to CHDOs in undertaking their projects—a central element of their multi-part strategy to help produce affordable housing while only at times being the developers themselves. ACTION often acts as development consultant, and in other cases as more limited advisor, especially to special needs facility operators who want help developing a structure and will then own and manage it. Free technical assistance in these and other situations is a major ACTION strategy and source of attraction to its funders. TRF has an important research and technical assistance function, developing and using models of neighborhood development and change to help target their own activities and provide aid to the city of Philadelphia and others in theirs.

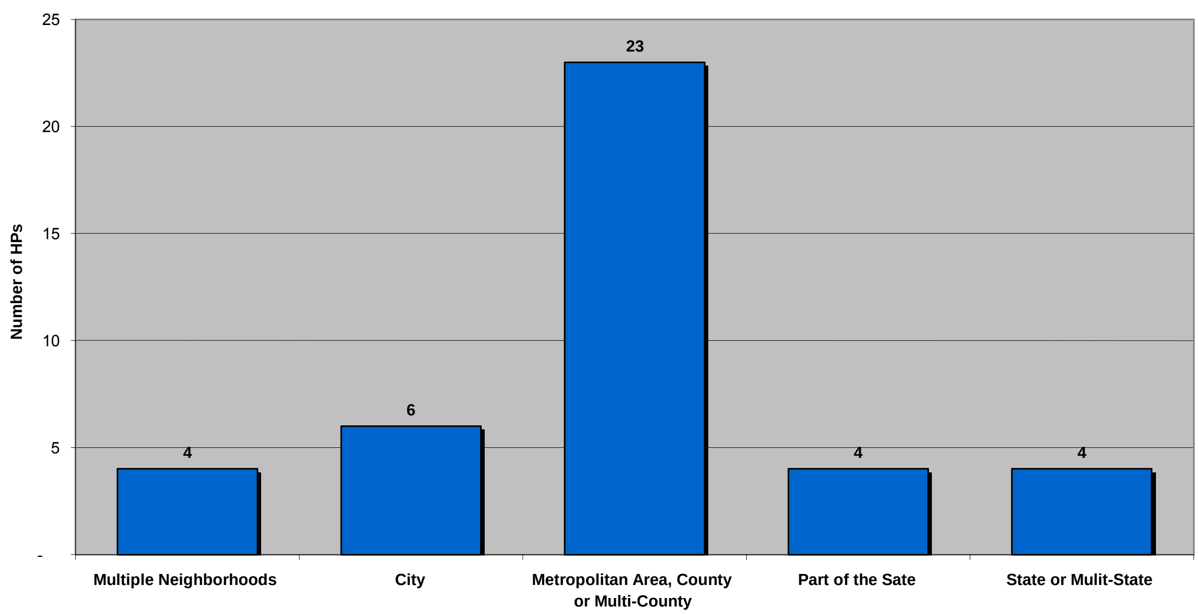
Housing Partnerships produce another quite distinct kind of product or service array less directly focused on their own real estate development and lending. Members—especially their CEOs, deputy directors, and directors of development—are very active in framing policies, inventing programs, advocating for program and funding action, and educating others in housing, lending, and related arenas—notably at the local and state levels. Action Housing has, for example, repeatedly played a central role in developing policy and program: first for home mortgage foreclosure prevention as Pittsburgh's rustbelt jobs situation deteriorated, devising an approach that became statewide policy in Pennsylvania; then for strategy to deal with homelessness; and finally for effective mechanisms to get furnaces repaired rapidly on a large scale following major flooding. The Wisconsin Partnership for Housing Development played a central role in efforts to preserve the property tax exemption fro rental housing owned by nonprofits in Wisconsin, and it is leading the effort to educate the state's citizens about the importance of affordable workforce housing. Leaders of organizations such as Mid-Peninsula Housing Coalition are important spokespeople for housing funding at state and regional levels, and Mid-Peninsula allocates an annual budget line to advocacy and education.

Markets and Customers

Regional Geography

Housing Partnerships show a clear pattern in the geography of their markets but a more mixed picture in the characteristics of their customers. Their markets can well be described geographically as overwhelmingly regional. As Figure 3.5 shows, a majority of all the organizations operated at their inception on a metropolitan level—defining their geographic span as either a metropolitan area itself, a county, or several adjacent counties. Most of the rest operated at least citywide, with some markets encompassing parts or all of a state or states. The smallest of HPs' original territories were multi-neighborhood, such as the cases of CCHT and ACTION Housing in which the organizations were formed to deal with the losses of affordable housing generated by major city center redevelopment. No HP claimed an original territory constituting a single neighborhood.

Figure 3.5. HPs Original Market Area



HPs have been expanding their market scope over time. All but one of the organizations that reported change in market geography since their inception said they had expanded, not contracted, their areas of work. These expansions responded to a variety of circumstances: requests and invitations from other communities' residents and governments, the need to find sites beyond largely built-up areas, access to funds not available within the original market area, recognition of pressing needs not being filled by others, and the desire to operate at a scale producing increased revenues and cost economies and to build portfolios to adequate size for property self-management.

> Among our site visit organizations, Community Services of Arizona expanded its market area from what had at CSA's inception been a single modest-sized town of Chandler to every area of the state. Meeting unmet needs in isolated rural areas, aggressively pursuing HOPE III funds throughout the state, responding to opportunities to access larger bundles of HOME and other local subsidy funds, seeing limited non-profit capacity in Phoenix, and receiving invitations to take on preservation projects all played roles in the geographic spread. The resulting project portfolio now, among other results, has grown large enough in rentals to justify economically taking on property self-management, which CSA is implementing.

As discussed above, HPs do concentrate some of their activities in specific smaller neighborhood areas. They may choose to renovate a particularly troubled building that affects its neighborhood, do several developments in close proximity, or develop for-sale housing in a neighborhood at least in part for community revitalization purposes. But consistently their overall objectives and activities reach more broadly than a single community. Even CCHT, which began its work in a smaller cluster of neighborhoods and developed and owns much of the rental property in its original community, now pursues a metropolitan area agenda.

Income Targeting

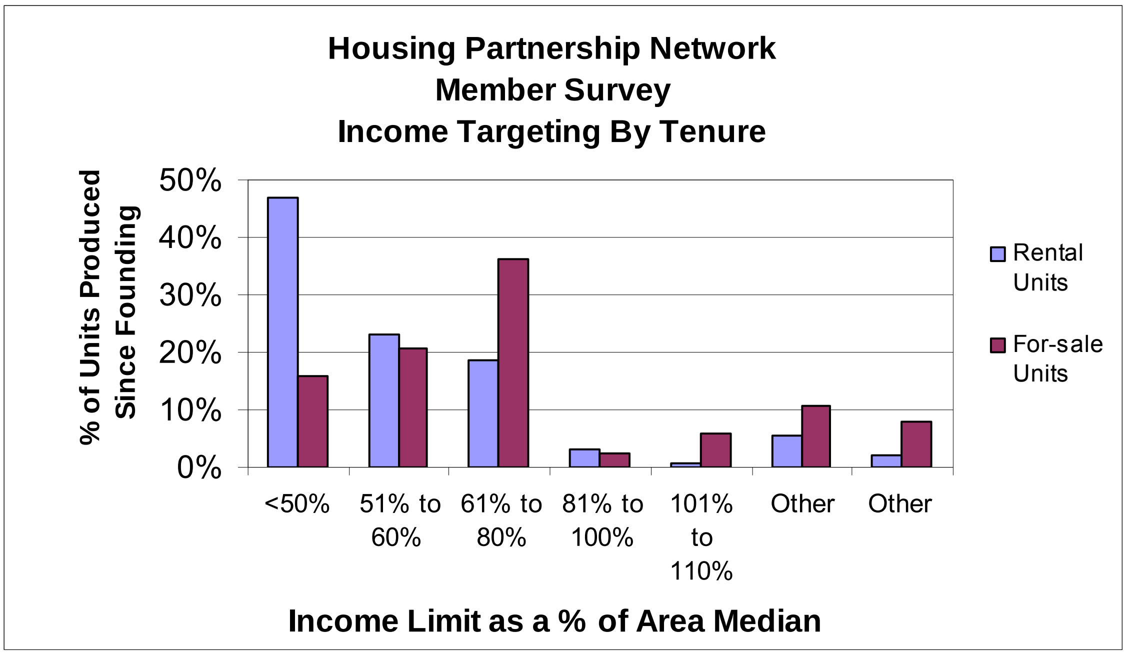
Who are the people served by HP work? Survey information is available about tenants and buyers of member-developed housing, specifically in terms of income. By design, HPN organizations develop housing affordable in substantial part to low- and very low-income people. Their actual performance is highly consistent with such goals.

Survey respondents were asked to report the affordability restriction levels applicable to housing they currently hold (rental) or that they sold to homeowners (for-sale).[19] How many units were mandated—by statute or regulation—to rent or sell such that people of each of given affordability levels could, by conventional standards, afford the rent or the payments to purchase? Figure 3.6 reports the aggregate distributions of units at different income levels.

[19] Note that this measure is different from the actual income of individual tenant or buyer households. We assumed that HPs would be better positioned to report the restrictions indicating for what income level units were required to be affordable than the mix of incomes of the individual households currently occupying the units. In addition, the restriction levels measure more directly the objectives sought by the developers in terms of affordability.

Consider first occupants of rental housing held by HPs. Half of all units for which restrictions were reported are affordable to people with very low incomes—below 50 percent of area median income. At the 60 percent of median income figure applicable to low-income housing tax credit projects, three in four units are affordable. And over 90 percent of units are affordable to households with low incomes (80 percent of median).

Figure 3.6. Comparison of Income Limits for HPN Member Produced Housing



In sum, at least among the rental units for which restrictions are reported, nearly all the housing developed is affordable to low-income people and more than half of it to very low-income people. There is an important caveat regarding this highly targeted result. The numbers of rental units reported with any restriction is only about two-thirds of the total rental production these same respondents reported. We do not know how many of the missing units respectively actually have no restrictions on rent level affordability, and how many had been previously sold by their developers, had restrictions unknown to the individual survey respondent, or were not reported at all because the respondent skipped the restriction question. If all had no restrictions, over one-third of member portfolios were at least not mandated as affordable to low-income people, though HPs may have set limits on their own.

Returning to Figure 3.6, we see that, not surprisingly, for-sale units with restricted sale prices were less targeted to both very low- and low-income households than were rentals. But the income targeting was nonetheless substantial. One-sixth of the for-sale units were set at prices affordable to very low-income people and nearly three quarters to low-income households. More than 80 percent were affordable to buyers with moderate incomes up to 110 percent of median income. The typical target was a low-income household, rather than the very low-income households common for HPs' rental developments. With the very high cost of usually lower density for-sale units, many public and private subsidy programs reach only moderate income household affordability. HPs' records are of substantially more targeting of homeownership than that. Also note that the percentage of units not reporting any restriction on for-sale properties is significantly lower than in the rental case (about one quarter), so that there is less likelihood of large numbers of truly unrestricted for-sale units. We do not have data on whether or how the restrictions in the for-sale case extend beyond the price of the sale to initial owners.

Casual observation had suggested a possible growing interest by members in serving a broader income mix of residents within a given project—mixed-income housing—in order to reduce problems that arise with the concentration and isolation of low-income people. Survey and site visit information indicates that in fact the interest in mixed-income housing is itself mixed and limited. In prioritizing missions, only 10 percent of HPs named creating mixed-income communities within even their top 3. Among the project types developers said they pursued, 44 percent said they had sought mixed income projects. But that was only a middle-tier focus—half the other priority categories rated higher. Among the members with whom we visited and had the opportunity to discuss income mixing, Mid-Pen continues to emphasize serving the very lowest income people; ACTION Housing focuses on elderly and special needs housing, generally also at the low end of the income spectrum; and Greater Miami Neighborhoods aims to serve people in the 40-60 percent of median income range. WPHD, on the other hand, is developing a mixed-income, mixed-tenure project as its largest development to date—although much of the market rate component, while part of the members' overall effort, will actually be developed by for-profit developers, as is common in members' mixed-income projects.

The Government as Customer

We discussed earlier the significant but not universal or uniform effort by HPs to serve people in need of supportive services or boosts toward homeownership or other economic gains, and the dominance of households over specific neighborhoods as target customers.

One quite different market dimension for HPs is local and sometimes state government—rather than households—as a key customer. These governments recognize members' program capacity and contract with them for a range of services. CSA serves as Housing Authority staff for one community and operates a homeownership program for another. ACTION Housing operates a statewide program of assistance to homeowners in financial difficulties, based on a model they themselves developed; directs the county's weatherization program; and jumped into post-flood furnace repair. And as we will discuss in more detail later, members are frequently invited to take on important and challenging development projects with local and other funding. Government agencies are significant paying customers for HPs though obviously often not the ultimate direct beneficiaries.

Another set of intermediate customers are other nonprofits to whom HPs provide technical assistance. More than half of all survey respondents indicated they deliver technical assistance, most commonly aiding in capacity building, financial packaging, and financial structuring. It is not clear how much of the technical assistance is provided on a contract basis and for pay and how much as more casual advice and to nonprofits who are members' junior partners in specific projects. We do know that among our site visit organizations, two—ACTION on a free-to-consumer basis for which they receive philanthropic funding, and WPHD using funds from a HUD technical assistance contract—systematically assist other nonprofits. A third—TRF—sells research and consulting services.

Dynamics of Products and Customers

The data show that HPs are predominantly and somewhat increasingly developers, and often managers, of affordable rental housing; modest scale lenders; and providers of services to residents and communities by varying means. But the complete picture of products and customers is more complex. At least among the organizations we visited, most as already noted undertake a variety of activities, at a mix of scales. And yet each feels that it emphasizes a particular niche within the broader affordable housing agenda.

CCHT has served especially the very low-income long-term homeless and formerly substance dependent, replacing for-profit SROs lost in other redevelopment. ACTION Housing concentrates on housing for elderly and special needs populations and also provides extensive free technical assistance to other nonprofits, as does WPHD. GMN and CSA concentrate on the working poor at 40-60 percent of median income, while Mid-Pen serves the lowest incomes; and CSA sees itself as alone in serving isolated rural communities in its state. CMHP chose a neighborhood revitalization focus in a unique relationship with city government. TRF is an early and significant player in financing childcare centers and schools and in the research on neighborhood markets mentioned in the previous section.

Sharp changes over time in the focus of work, often in response to changing market circumstances, are also common among our site-visit members. ACTION Housing has made multiple changes, from developing replacement housing within overall Pittsburgh Renaissance redevelopment, until project economics made this untenable; to assisting laid-off steelworkers from losing their homes as that problem became acute; and from concentrating on Pittsburgh neighborhoods, until regional economic forces deterred continuation, to developing rental housing region-wide with a strong service and empowerment bent as that need loomed unmet. CMHP shifted from more heavily for-sale housing to rental housing, in response to price-efficient for-profits moving into the once-dormant Charlotte lower end for-sale market. WPHD was initially a technical assistance provider, managed loan and investment programs concentrated in Milwaukee, departed Milwaukee when many nonprofit developers there collapsed, continued as a technical assistance provider elsewhere in the state, became a mixed-income housing developer, and is in the process of returning to Milwaukee. CCHT saturated its neighborhood market for rental housing, in terms of sites and resident willingness to absorb it, and then moved to a regional focus, while Mid-Pen widened its geography more continuously in the search for good sites. CSA leaped into statewide housing efforts in reaction to HOPE III fund availability and widened their other efforts in part in pursuit of the location of additional housing resources. GMN recently recognized a declining ability to earn surpluses from cash flow in rental housing as the price to develop or to purchase existing structures rose. It is shifting to more development of condominiums in response. TRF has shifted its portfolio mix as more competing sources of affordable housing finance arise, and it expects its charter school products soon to be its largest money-maker.

Plainly, market environments and competition make a difference in HPs' choices of work over time and their ability to and constraints in pursuing it. Members have been conscious of the impacts of markets and of issues of economic feasibility and have often adjusted accordingly. Increasingly they are market driven, responding to competition, the interests of their clients and customers, and the availability and competition for resources and project sites.

Organizational Scale and Structure

Before describing the next two more internal elements of HPs' business model, how they produce value and pay their bills, it is helpful to draw briefly a picture of their scale, organizational structure, and longevity as organizations. We have already seen that they are large-scale producers and managers of affordable housing and associated services and usually smaller lenders. In general, the members are relatively large in staffing and budget and a bit mature as housing and community development organizations go. Median staff level is 60, with a mean of 67 (see Table 3.1). The similarity of median and mean suggest that staff levels are rather evenly distributed across a modest-sized spectrum. Indeed staff size ranges from 5 to 215. As Table 3.2 shows, one set of over a third of the companies is concentrated in the range of 30 or fewer workers. But a majority have over 60 employees, and nearly a quarter have more than 100**.** These staff numbers are much larger than for typical nonprofit developers. NCCED's 2003 data for all CDCs and related nonprofit developers (including many HPs) show a median staff size only one-sixth as large (10 FTE) as that for HPs.[20]

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[20] NCCED, "Reaching New Heights: Trends in Community Economic Development," op. cit..

Housing Partnership Network
Table 3.1. Organization Scale (2004)

	Mean	Median
Staff Level (FTE)	67	60
Operating Budget	$ 4,391,597	$ 4,100,083
Organization's Age*	23.04	20.00

**Note: Organization Age was computed from the Supplemental Survey of an expanded number of Housing Partnership Organizations*

Housing Partnership Network
Table 3.2. Distribtution of HP Staff Sizes

	Percent of HP Organizations
Staff Size	
0 - 15	11.54%
16 - 30	23.08%
31 - 60	15.38%
61 - 100	26.92%
100+	23.08%

Table 3.3 details HPs' staffing allocations to various functions. Real estate development, despite its prominence in organizations' and outside perceptions of their functions, is a quite small function in terms of staffing, with a three-person median. At least in our visits, we found that top executives (CEOs and deputies) were frequently involved heavily in development as well, so that the table—with a separate category for executive staff--may modestly undercount staffing for the development function.

Comparing staff medians and means for functional staff categories tells a further story. The median (middle) organization has far fewer workers than does the mean (average) organization, in categories of property management, accounting, and resident services. These statistics and review of the distribution of the raw data indicate that many organizations have small or no property management and resident services functions, while a smaller number have large staffs in those areas (and in associated accounting). The property management and accounting functions are large for HPs that are property self-managers, but small for many others. And a relatively small number of probably direct providers of resident and community services have large service staffs, while many others using different delivery models, or just starting up in the service area, have few.

Housing Partnership Network
Table 3.3. Distribution of HP Staff Sizes by Staff Function

	Mean	Median
Staff Category		
Executive Office	2.9	2.0
Accounting, Contracts, HR	6.7	4.0
Information Technology	1.1	0.0
Real Estate Development	4.7	3.0
Property Management	23.5	2.0
Lending Programs	1.5	0.0
Equity Investment	0.4	0.0
Resident & Community Services	9.1	1.0
Homebuyer Education & Counseling	1.5	0.0
Other	7.2	0.5

Clearly, decisions to take on property management and/or resident/community services involve major potential additions to staff (and expense) and can thus be of great significance to nonprofits. Our site visits indicated that members take them very seriously, analyzing the portfolio scale needed to make property self-management a break-even business line and planning and budgeting ahead before taking on the functions. Some HPs highlighted the challenges of incorporating major staff additions of these kinds without losing shared clarity about organizational mission and tight internal communication.

Operating budgets for HPs are typically about $4 million.[21] Almost all range between single digits in millions of dollars at the higher end and about a half million dollars at the low (see Table 3.4).

Housing Partnership Network
Table 3.4. Distribution of HP Operating Budgets

	Percent of HP Organizations
Operating Budgets	
$0 - 1 M	15.79%
$1.01 - 3 M	26.32%
$3.01 - 6 M	21.05%
$6.01 - 9 M	26.32%
above $9 M	10.53%

The typical age of the organizations, since founding, is about 20 years. This is quite similar to the 17 year median for respondents to the broader NCCED survey for 2003. Evidently HPs grew on average much more rapidly at least in staff size and housing production level over about the same number of years (and maybe have started at a larger scale) than did the broader set of nonprofit developers. This is certainly consistent with HPs' concentration of activity in housing specifically and their focus on high levels of production, over larger target areas.

Scale and longevity have not led to particularly complex organizational structures, at least as visible in formal terms. We asked members how many operating corporations they had, including any operating subsidiaries with staff. The median was two, most frequently representing a real estate development and a property management company. Only 8 of the 41 respondents had even one for-profit company, and none reported more than one. HPs regularly had many additional separate structures for their low-income housing tax credit projects and other ownership structures; but these were not separately staffed, functioning solely as ownership devices.

[21] These numbers should be treated as rough approximations. It is notoriously difficult to define operating budgets so as to receive consistent data from diverse organizations with varying accounting conventions, and we did not undertake detailed assessments of the figures reported in the surveys.

Value Chain

How do HPs create value? As we have seen, they develop and finance affordable housing at significant scale and carry out a mix of other housing and related real estate and service functions—often filling specific roles and gaps that others do not, while addressing the larger need for affordable housing that so far outstrips the available supply.

Value in Quality Performance

But beyond that, the quality of their work—especially as developers and owner/managers—quite consistently receives top ratings from the partners, funder/investors, and political actors with whom we spoke.[22] Repeated comments about the organizations we visited included:

- "The best affordable housing developer in the area."
- "The state's preeminent nonprofit housing developer."
- "Dominant in their market."
- "In the top tier of 2-3 developers in terms of the quality and quantity of their development products." (In our small site sample, commonly at least one of the other top competitors was an HP as well).
- "The 'guys' we can count on when we need something done."
- "They stick with it until it's right, changing property managers a couple of times until they found someone good."
- "We can tell these are good projects because we don't get complaints."
- "The frequency of repeat business means the product is high quality."

Many are near monopolies in affordable housing development in the geographic areas in which they work, especially among nonprofits. Whatever their absolute size, they are large in relation to the size of such development in their particular markets. CMHP in Charlotte, CSA in Phoenix and other parts of Arizona, ACTION in areas surrounding Pittsburgh, and GMN in the state of Florida are clearly the dominant affordable housing players. Admittedly to some extent this also reflects a weakness in nonprofit development capacity in some of the metropolitan areas. And to some extent, the HP companies elect to operate where others do not compete—

[22] It is worth noting that we did not ask HPs to identify their most vigorous detractors and competitors with whom to conduct interviews. But the consistency of comment from at least potentially neutral actors—local housing officials, bankers, etc. suggests that we obtained a reasonably accurate picture of the reputation and quality of HP work.

for example ACTION's decision not to compete for resources in city of Pittsburgh neighborhoods in which CDCs operate (with substantial claim on local resources but not at high housing production levels).

A very common specific comment is that HPs can be counted on to deliver on their promises. Other actors expect that money spent with them will produce promised projects, that they are less likely than other developers to come back for additional funds to complete their work, that they are somewhat more likely to pay back local government's soft loans with residual receipts in the long run, and that they will not require large amounts of managing and oversight to assure proper performance. In many instances in our site visit sample, the HP is considered the only local nonprofit that can be counted on in these ways—although that is not uniformly the case, and experience may certainly be different in other localities with a more extensive spectrum of nonprofit housing capability.

In many respects, HPs are—in the words of both interviewees and interviewers—the "GO TO Guys" in the affordable housing arena in their areas, especially for local government agencies. The public sector looks to HPs to effectively use public dollars, to take on added program functions, to expand their geography of operations to cover additional places in need of affordable housing delivery, to invent new approaches to vexing or newly emerging problems, and to educate and advocate on behalf of affordable housing and the resources for it. In Phoenix, local government is willing to allocate large portions of total local subsidy dollars to CSA in order to get major projects built, in a weak overall affordable housing sector. But smaller towns and rural areas look to them as well to take on small projects with small local resources, which no one else is prepared to take on, and one town asks it to run the Housing Authority. The city of Charlotte, and neighborhood organizations within it, turn to CMHP in a succession of neighborhoods to pursue turnaround-level revitalization—following an initial outstanding success. ACTION Housing is the "go to" player not only in its special needs area of development but in devising and sustaining a major weatherization initiative and in leading the state response to home mortgage foreclosure. The City of Philadelphia, especially recently, has turned to TRF to analyze redevelopment options in its many distressed neighborhoods and to guide choices in redevelopment strategy. Mid-Peninsula is invited to propose projects at key sites in a growing sweep of Bay Area localities, based on the quality of previous projects nearby, though there are more overlapping organizations in the vicinity, including additional HPs and others. GMN is among several site-visit HPs sought after as new owners for preservation projects. WPHD is asked to take leadership in promoting workforce housing statewide. HPs, as we will discuss further later, start with and nurture good local political connections; but they build to the "go to" level with consistent and competent performance.

Value Chain Dynamics

The evolution of HPs as large-scale producers of high quality housing and finance products, sought after by other players in the affordable housing and related industries, has typically been neither simple nor linear. But we did find some common patterns.

First, HPs often grew rapidly by taking advantage of an initial kick-start.[23] Greater Miami Neighborhoods was surrounded by the disastrous effects of Hurricane Andrew. But they had over time developed good if limited capacity for housing production. The aftermath of the hurricane brought large-scale resources for replacement housing. GMN aggressively pursued the first resources based on their favorable initial reputation and early capacity. It then built its portfolio, expanded its reputation, and extended its geography with rapid and successful development using hurricane funding. CSA concentrated its initial work in one city and in community services and then brought in staff with development expertise, positioning itself for expansion into that arena. The creation of the federal HOPE III homeownership program with substantial resources provided it with ready subsidy capital. It moved rapidly to become one of the program's largest developers, extending its work throughout Arizona and building a lasting statewide presence. TRF obtained significant scale Program Related Investment support from the Ford and Pew foundations and turned that expansion of low-cost resources into a continuing engine for growth. Seizing opportunities and successfully building on them for the long haul, in significant part through initiative and strong performance, characterizes HPs' history and growth.

Second, HPs have more often followed rugged and twisting trails than smooth paths of continuous success. Indeed, some encountered failures and withdrew from failing markets or strategies. Whether failing in one arena, or responding to market and competitive changes as highlighted in our discussion of market dynamics, many re-invented themselves with sharply changed program and project emphases. The ability to recognize needs for major adjustments and to make shifts in direction has been a necessary skill.

[23] The kick-start may take place not at the start of the company's existence but at a particular point later on.

Three Examples of Shifting Focus

ACTION Housing started as a developer of federally subsidized housing, replacing units lost to Pittsburgh Renaissance redevelopment. The federal programs had financial design flaws that led to project failure, and ACTION largely dissolved its portfolio and withdrew from that development arena. It also pursued neighborhood housing efforts in Pittsburgh but later concluded that regional and other forces were too powerful to allow success, and withdrew from these activities. But the organization re-established itself around its successful mortgage foreclosure prevention efforts, and renewed its development function—as developer and as technical assistance provider—in special needs housing production outside central-city Pittsburgh neighborhoods.

WPHD initially financed subsidized projects in Milwaukee. Limited CDC experience in property management and other factors led to project failures, and WPHD eventually withdrew from activity in Milwaukee and de-emphasized its lender role. It remade its focus as a technical assistance provider, became involved in inclusionary zoning and other program design/advocacy efforts, and then turned to direct development in the mixed-income housing context—all outside Milwaukee. Federal program regulation complications and market slowdown in its primary housing development effort seriously challenged the organization financially, but it has strengthened its fiscal position. Now it has decided to pursue development partnerships in Milwaukee again, to meet its statewide role in the state's population center. Created from the start as an agent promoting affordable housing through financing, technical assistance, and direct development throughout the state, it has clearly refashioned its focus within those activities in response to an array of forces.

In a less complicated case of still very sharp redirection, GMN began life as a provider of technical assistance in capacity building for other Miami community developers. It had only limited success in building those capabilities and switched to a direct development role. With Hurricane Andrew activity, it greatly expanded its geographic spread.

Credibility of these organizations' long-term leadership was central to allowing them to shift functions midstream without losing outside support. Their "go to" links to local government in some cases gained them forbearance or additional resources when troubles arose. Being diversified organizations with multiple product lines and revenue sources also helped facilitate sharp change. In addition, HPs' own planning enabled them to do some taking care of themselves when troubles arose. For example, CSA faced a significant downturn in rent revenues in recent years when cheap owner-occupied housing/financing drained the market of tenants even in lower income units. Because CSA had, unlike many other rental property owners, set aside real cash reserves against revenue reductions, it was able to weather the downturn without foreclosures.

Operational Advantages of Scale

That HPs work on a relatively large scale-- in terms of development, portfolios, and overall budgets—provides a series of advantages. Staff specialization can provide opportunities to hire for specific skills and knowledge and for the staff once hired to learn from intensive attention to a specific topic. A significant case is that of the asset management function. This function is a growing one for HPs as portfolios increase and age—requiring additional attention in terms of such matters as repair and rehabilitation, as preservation projects are acquired, and as members look for ways to use current properties to provide capital and other resources for additional work. According to our site visits, asset management has often in the past been handled by development staff, property management staff, and/or staff with multiple assignments of which asset management is a limited one. But specialization now appears to be growing as well. Our survey shows that a majority (55 percent) of HPs now handle asset management through a separate asset management department or staff.[24] As the last two rows of Table 3.5 indicate, roughly that same majority handle asset management both in terms of refinancings, work-outs and transfers of ownership and in terms of making physical improvements through the use of in-house specialized staff. More broadly, development project managers are not generally required to serve as construction or asset managers in HPs, likely allowing them to handle more projects as developers. But there are still significant exceptions.

Most real estate development functions are handled in-house. Only general contracting, architecture, engineering, and legal services are obtained from 3rd parties by a majority of HPs. Additional services are handled primarily by staff generalists rather than specialists—project management and the preparation of financing applications (see again Table 3.5).

Financial structuring and negotiations are the tasks—along with asset management—most likely to be undertaken in-house by specialized staff, in about half of the cases. HPs are clearly able frequently to sustain substantial internal expertise in these functions. In some markets, our interviews suggest that HPs have greater financial sophistication than some of their smaller nonprofit competitors, especially in rental housing. But this is not universally true. Table 3.6 summarizes the share of HPs' pipeline projects which are expected to use various funding sources. The HPs we visited generally use many of the same financial resources (tax credits; CDBG, HOME and other federal funds allocated locally, bond financing, etc.) as many smaller nonprofits. Because financial sophistication can also be acquired by hiring consultants,

[24] The survey does not allow us to distinguish whether separate staff is nonetheless part-time.

it is perhaps to be expected that it is not a sustainable competitive advantage—at least by the broad measures we were able to observe—for larger organizations.

Housing Partnership Network
Table 3.5. How HPs Handle Various Real Estate Functions

	Out Sourced to 3rd Party	Handled In-House by Specialized Staff	Handled In-House by Project Manager
Tasks			
Overall project coordination	5.7%	31.4%	62.9%
Preparing financing applications	5.6%	38.9%	55.6%
Financial structuring and negotiations	10.8%	48.6%	40.5%
Construction Management / GC Oversight	23.7%	42.1%	34.2%
General Contracting	71.4%	22.9%	5.7%
Architectural	82.4%	11.8%	5.9%
Engineering	90.9%	3.0%	6.1%
Coordination with Property Management	8.8%	35.3%	55.9%
Legal	86.1%	8.3%	5.6%
Marketing	35.1%	45.9%	18.9%
Asset Management: Refinancing, Rork-outs, Sales/transfers of ownership	8.3%	55.6%	36.1%
Asset management: Physical Improvements	17.6%	55.9%	26.5%

Housing Partnership Network
Table 3.6. Sources of Capital for HP Pipeline Projects

	Percentage of Projects that use Each Source
Programs / Sources	
Low-Income Housing Tax Credit	32.0%
Historic Preservation Tax Credit	1.1%
State Historic Preservation Tax Credit	0.2%
Private equity not based on tax credits	8.5%
Commercial Mortgage Financing	12.7%
Federal Home Loan Bank / Affordable Housing Program	6.6%
FHA Multifamily Programs (224, 221, 236, other)	4.4%
Tax exempt bonds (501(c)3)	1.7%
Tax exempt bonds (private activity)	12.7%
FHA Section 202/811	3.9%
USDA Section 515	0.9%
CDBG, HOME or other HUD	33.1%
State or Local Funds	22.1%
Other	7.5%

The size of HPs' rental housing portfolios renders self-management of their properties a financially viable option for many of them. About 500-1,000 units are typically necessary for such viability, although those HP staff who spoke to us about the topic suggested that somewhere in the one-to-two thousand unit range was needed. Two thirds of HP developers do property management for at least some properties, and in the aggregate members manage more than two thirds of the units they own or control (see again Table 2.8).

Scale also seems to have enabled HPs to build their capabilities in back office functions before shortcomings in those areas became acute and immediate. The array of member activities contributing to overhead and accumulation of working capital allowed them to add sufficient staff in areas in which more severely cash-strapped nonprofits are often forced to be thin. A CSA financial chief said: "this is the only place I've worked where the CEO actually encouraged me to add accounting staff." Growing organizations were adding directors of operations or similar positions as well.

Sharing Features of Well-Run Businesses

The quality and growth of HPs' work appears to reflect several of the prominent elements that characterize well-run businesses in other lines of work:

- excellent leadership
- entrepreneurialism
- able to exploit opportunities, and
- flexibility.

According to insiders and outsiders alike, many HPs are headed by strong and charismatic leaders. Their CEOs, and in some cases top deputies, are highly visible players in affordable housing, with strong reputations for their knowledge and accomplishments, and well-connected to and respected by political powers. At least at the sites we visited, it was common for the leaders to have spent not just years but decades in their positions, in some cases since founding of the organizations. Outsiders consistently identified these leaders as the face of and critical force for moving the companies. Leaders nurtured key external relationships, brought extensive program and project knowledge to the companies' activities, and led innovation at both their own organizations and in broader affordable housing arenas.

Entrepreneurial spirit and the aggressive pursuit of business opportunities are additional key qualities for HPN members. WPHD's CEO identifies in particular the ability to pursue earning money for services, while providing services that forward the organization's mission, as the key characteristic needed for staff members to succeed at his company. We have already detailed many examples of strongly taking advantage of situations that create the opportunity for dramatic growth. HPs recognized the opportunities, took aggressive action to garner resources and produce results, and built lasting capabilities in the process.

HPs' flexibility has been critical to their survival and growth in at least two prominent ways outlined earlier. HPs responded to changes in market conditions ranging from advantageous to mildly competitive to potentially disastrous, withdrawing from old markets and entering new, bringing new resources and services to bear in order to address changed conditions and needs. And, in response to market shifts, program changes, recognition of needs and gaps, and the lessons of success and failure, many of at least our site-visit companies fundamentally re-invented themselves—shifting focus in products and broader lines of business, geography, and target population.

Challenges

HPs face a number of challenges in developing and sustaining their organizations and productivity. Some of these are associated with the same characteristics that are their strengths. Notable challenges include at least:

- leadership succession
- retaining second tier managers
- handling asset management responsibilities, and
- digesting a full plate of growth.

Critically important will be succession of new leaders to replace long-time current leadership with whom much of the "go to guy" reputation, experienced-honed skills, and many of the external relationships reside. Much of the special way that HP organizations are viewed relates back to these leaders. Their phone calls make things happen.

Some of the members have the good fortune and/or foresight to be in excellent position for succession. ACTION Housing has a long-time deputy who has anchored and directed the development side of the organization, in an explicitly complementary role with that of the CEO. The deputy has his own strong relationships with outsiders. He has long been expected to take over as top executive when the long-time CEO retires. The CEO announced his impending retirement a year in advance—allowing for further transition of responsibilities and roles. At CSA, several years ago the CEO (who much earlier led the organization into the housing arena), anticipating his future though not imminent retirement, created a new position as development director and ultimately titled senior vice president, and filled it with a potential new leader. The CEO has sublimated his own role and promoted that of his deputy in public forums and other situations, explicitly to help make a successful transition. Now the organization has hired a consultant to aid in thinking about how to sustain good internal relationships and other strengths while accommodating the loss of a long-time leader and the differing style of a new one.

Other HPs, and their partners and supporters, are concerned not about the flow of transition but about the larger problem of finding an effective new leader. Several of the organizations we visited lack staff with extended tenure, broad roles in their organizations in their current positions, and/or public exposure and skills to be at least odds-on candidates for successor. Some members have other executive positions only newly filled or currently vacant. They may have to stretch to find an outsider to succeed as CEO, provide renewed opportunities for growth for other staff, or hire into senior staff roles for later succession. Given the importance and stature of current top executives, that stretch may become a serious strain.

Finding and retaining second tier managers and experienced development staff has been a challenge for a significant minority of HPs. Members pay reasonably well for nonprofits, offer good benefits, and are praised by their staffs for offering flexible working conditions (nonstandard hours, working from home or telecommuting, offices away from home-base locations). But they cannot compete fully in terms of compensation, especially with for-profit developers who can offer staff an equity participation in the ownership of developed properties. As a result, a significant set of development staff beyond CEOs and development directors are relatively inexperienced, as some of the most experienced are enticed away by various alternatives. On the other hand, the majority of site visit organizations do not find this to be a problem and believe offering opportunity to pursue missions highly valued by participants offers a substantial offset to financial disadvantages. The second-tier manager challenge seems to center on HPs being able to determine they want and can afford the positions, find people with the right combination of skill and commitment, and at times allocate sufficient independence to them.

The asset management function is still evolving. It has necessarily focused heavily on complying with regulations concerning low-income occupancy and reporting. Increasingly as real estate portfolios expand and mature, strategic issues—of housing repairs/improvements of, and finance/ownership positioning to create and harvest financial advantages—are becoming prominent. The strategic function requires some different mindsets and skills and clearly attention to a new set of substantive issues. Some HPs—including Mid-Pen and CMHP—have moved visibly to staff the function more expansively and to direct their attention to the newer responsibilities and opportunities[25], while some of the others have more transitioning yet to do.

Like other growing organizations, successful HPs face challenges in accommodating and incorporating growth and change. These challenges require serious attention in

[25] Mid-Peninsula's significant efforts in strategic asset management are discussed more fully in chapter 4's section on "trapped equity."

themselves. As a very visible example, by coincidence our visit to CSA occurred within a period of major multi-dimensional change. CSA is simultaneously taking on its own property management function for the first time, substantially adding to the scale of its development activities especially in the preservation arena, creating a resident services function for its housing,[26] and nearing transition to new leadership. In order to make that amount of simultaneous change, CSA is proceeding with care.

Having surpassed its target portfolio benchmark for proceeding to property self-management, CSA bought an existing property management firm and is incorporating its director and some of its staff into the organization. Creation of appropriate accounting systems, transition of properties to new management without temporary service problems as current contracts wind down, addition and training of sufficient back office staff, integration of new property management and accounting staff into CSA and its mission directions, and devising a business plan to phase properties in and reach financial targets are among the issues being confronted. CSA has wisely determined to take over management of buildings on a flexible, as able basis. Expanded housing development work has to date been divided up between the likely soon-to-be-retiring CEO, the soon-to-become CEO, and significantly more junior staff. Maintaining the development pace as CEO transition takes place could be a challenge as well, tempered by the maturing of junior staff and possibly future consideration of a new hire. The resident services function is being started in a small portion of the portfolio with a single direct staff person, with decisions about future growth and funding yet to be made. The CEO transition benefits from clear delineation of an experienced in-house successor and an excellent relationship between the current and future leaders. Still the organization is moving carefully to reassure staff with close ties to the current CEO and accommodate management style differences inherent in the change, with consultant assistance.

Cost Structure and Profit Potential

Multiple Conceptions of Sustainability

How do HPs think and act regarding paying their costs and obtaining revenues? The basic approach is to place a high value on financial sustainability and increasing self-sufficiency, **within the context of pursuing their missions**. They aim to earn money from at least some of their various functions, to pay for core and program operations and to build working capital. They pursue increasing self-sufficiency in making choices about their work and are often vocal in stressing the importance of aiming toward that goal. They are aggressive and innovative in

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[26] CSA has a long history in bringing human services to the community of Chandler, its original function, but has not previously provided services to its own housing project residents both in Chandler and in the rest of the state.

pursuing means to self-fund. But they also take on functions that do not pay for themselves, in order to stay true to their missions. And most do not anticipate full self-sufficiency in the sense in which we would usually define it, nor do they reject available grants from government and philanthropic sources. As Mid-Peninsula's CEO phrased it, her organization has been from the start a "business with a social mission."

Some HPs, including for example Homes for America and Eden Housing, intend to sustain themselves entirely on earned income—though of course even they are dependent on government sources for subsidies to make projects affordable to low-income people. But most of those we visited are not aiming to pay for all of their operations only from earnings. CMHP relies on annual two-million dollar grants from local government to pay for a mix of project pre-development costs, including some of their own staff time, as well as to subsidize projects. They have been receiving these funds regularly since founding and count on them in their budgeting. At the same time, the organization takes pride in the fact that it received a $300,000 initial capitalization largely from corporate donors and has only once returned with a small additional request for broad operating support. ACTION Housing relies on periodic infusions of philanthropic and corporate grants, which they find relatively easy to attract from many of the funders who helped capitalize them initially and have continued to support their efforts over the long haul. These grants pay in significant part for development staff. Indeed a major selling point for foundation funders is that ACTION supplies free technical assistance in housing development to other nonprofits on a continuing and systematic basis. ACTION nonetheless works hard to stretch the philanthropic dollars by obtaining earnings and other support, in order to limit the frequency of their requests to about every five years—a strategy much appreciated by the funders. WPHD, with a strong organizational and CEO commitment to generating earned income, nonetheless found a Fannie Mae grant to be a key resource in being able to kick off doing its own development.

CCHT underlines the willingness to accept grants for operations in their recent funding strategy. They, like many HPs, have earned substantial developer fees as they complete projects or on a deferred basis. But, concerned about uncertainty in actually securing these fees and in the irregular and sometimes long-delayed timing of their payment, the organization is deliberately switching from a perceived over-reliance on developer fees and aiming to obtain 30-40 percent of its operating budget from a diversified set of foundations and individual donors. Reliable streams of support need not always be from earnings.

HPs do in general want to cover as much of their operating costs from earnings as they can, given their organizational purposes. Wherever possible within their mission constraints, members pay attention to meeting the costs of specific activities out of money they can earn from operations. They further aim to generate surpluses (profits) where possible in order to subsidize other functions that don't pay their way. Leaders of these companies are outspoken in their desire for increased self-sufficiency, in order to reduce vulnerability to swings in funding availability and priorities, to reduce time spent by CEOs and others in raising funds for core operations, to be able to plan ahead for project development and move rapidly at the front end of projects, and to avoid dependence on sources judged as uncertain. At least where they are not serving a needs-intensive special population, they squeeze the potentially profitable pieces of their businesses (developer fees, loan fees and lending spreads, property management fees, asset management fees, property cash flow, fees for administering government programs, and construction contracting and management) as hard as they can without diminishing the delivery of housing affordable to low-income people.

All of the HPs we interviewed indicate that they do track revenues and expenses separately by business lines. They all mentioned that this is driven, at least in part, by the exacting fund accounting requirements of federal grants, which in many cases require painstaking documentation of costs for reimbursement (including detailed timesheets from all employees requesting reimbursement from federally-funded program grants).

The groups however vary widely in how precisely they keep track of time and indirect costs associated with different business lines or programs, beyond the requirements of federal programs.

Most HP organizations use the information generated by their fund accounting/reporting systems to inform senior management of financial performance of different business lines or programs on an on-going basis, to help spot emerging problems, or to track progress against goals. HPs vary in how much these reports are pushed down through the organization to assist or empower second-tier managers (i.e., those directly in charge of the programs).

While they pay attention to cost accounting, HPs do not operate as for-profit businesses. They clearly act as nonprofits in two important ways, beyond accepting grants. They deliberately conduct activities which regularly return deficits, for which they expect to have to fundraise. They also take on difficult projects that involve more risk and lower returns than would an organization that is maximizing profits. In sum, mission comes first.

A strong signal of this nonprofit difference surfaced in our interviews with HP staff who had come from the for-profit sector. All found distinct differences between members' culture and operations and that at previous employers, explicitly in terms of the primacy of meeting social goals.[27]

Notwithstanding that priority, HPs definitely make conscious decisions about which programs to subsidize and which to expect to be self-sustaining or profit-generating, and they track and manage those results over time. Most of these groups may well continue high-mission

[27] Much of the language in the previous 5 paragraphs is drawn from an informal working memo from Laurie Gould of VIVA Consulting.

programs even if they are money-losers. But they all consider it important to understand and plan for the financial reality of each business line, and to figure out how to subsidize those programs that are productive in mission terms but not financially self-sustaining. In a few instances they have closed down programs or functions which were not critical to mission, especially in the sense that they could reasonably be provided by others or had proved disappointing in their impacts. On the expansion side, HPs not surprisingly made decisions to grow new or expanded lines of business based on a combination of social need and financial analysis. Some who had either launched into property management (GMN, CSA) or were preparing to launch into property management (CCHT) have done/will do so on the basis of careful financial and programmatic analysis, considering the potential for profitability (based on sufficient scale of operations), and also the managerial impact on the rest of the organization. Others (CMHP, CSA again) also entered new ventures at the specific behest of local governments. Many added new businesses spurred by their analysis of community needs, or identification of new business opportunities in shifting markets.

Getting the Money

Developer HPs expect their real estate activities generally to pay for themselves, in the sense that fees earned for undertaking development cover the *operating costs* of planning, financing, and overseeing development. Further, they set as a goal to generate surpluses to help forward their overall work and their lines of business with operating deficits. They earn and usually collect developer fees, aiming to generate sufficient revenue to pay for development staff's work and to contribute to overhead and potentially to other functions. They work hard to fit their developer fees into project budgets even if they have to be quite patient to actually receive them. Those who are doing property management generally think that breaking even or earning a small surplus, by charging projects conventional levels of management fee, is the most realistic goal given the objective of good service to residents (and buildings). Even this objective is difficult to attain, and HUD's recent efforts to push fees downward is adding to the challenge. Less explicitly stated, HPs seem to aim to break even on asset management by charging standard fees for that service as well.

Many HPs additionally hope to generate some net cash flow—and some equity—from at least a portion of their properties. How feasible that is depends heavily on the rules of the subsidy programs under which the housing has been developed,[28] the markets in which they are operating, and the incomes and service needs of the target resident population.

[28] Assuming subsidy was involved. Some of the best opportunities for positive cash flows are in cases in which properties were purchased in the market and operated without subsidy.

Provision of resident, and less often community, services is the business line on which HPs do not aim to break even, but for which instead they expect to fundraise. Government contracts typically allow for too little in administrative funds to support the costs of managing and delivering these programs. Philanthropic and public sector grants are needed to cover the program costs and to supplement the program funds themselves in an era of growing needs and declining resources.

More broadly, HPs look for opportunities to vertically integrate, in order to capture additional funds they see as potentially available in the real estate sector's multiple business lines. Multiple revenue streams also enable them to balance cutbacks or uncertainties in one particular line of work with earnings from another.

GMN Strategy Toward Self-Sufficiency

GMN well represents many of the patterns in seeking substantial self-sufficiency consistent with mission as described above. It sticks closely to its mission of providing affordable housing to people with incomes at 40-60% of median. By aggressively moving to substantial scale as a developer, and focusing on larger projects, it has produced a strong stream of developer fees that today provides about 2/3 of the company's operating budget (even after some deliberate diversification). It has been doing its own property management for some time and earns asset-management fees as well. It further integrated to undertake a piece of the contracting function, coordinating the subcontractors who provide the actual crews.

The company has been eager to reduce its level of reliance on developer fees, for the same reasons—increasing difficulty to capture, uncertainty, and variability—that concern others. An important part of reducing that reliance has been to develop or purchase buildings that generate positive cash flows. Until recently, GMN was able to manage that in a relatively soft rental market; but such opportunities have diminished more recently for properties serving those with working-poor incomes. GMN has increasingly shifted its development focus from rental projects to condominiums, in which there is still an opportunity for profits within the organization's affordability targets.

GMN seems to be in the minority in seeking earned income to cover 100% of its budget. That however fits with its decision not to offer significant resident services—the area of consistent deficit that limits the ability of others to reach full self-sufficiency.

According to our survey, at least 37 percent of respondents (15 of the original 41 surveys) had one or more business lines that typically turned a profit.[29] Development (presumably through developer fees) was the primary area in which surpluses were produced. Among those who had one profitable line, a second line was quite common. The mean number of profitable lines among those who had any was 1.6. But this small group did not show any particular pattern of business line.

As we noted in our earlier discussion of markets, HPs frequently administer government programs. The government agencies both pay the program costs and provide a management fee. For WPHD, managing a homeownership down payment program for the state is a source of substantial revenue and produces a net surplus. TRF expects its funding of a government-supported charter school lending program will soon become its most profitable business line. ACTION's weatherization program produces an important steady stream of income and contribution to overhead. CSA earns income delivering a range of services as the Chandler CAP agency and running a local housing authority for the city of Peoria. The Hispanic Housing Development Corporation manages 2000 housing units for the Chicago Housing Authority. Members distribute HOME monies to other entities, and many carry out housing counseling. It is likely that few other for-profits or nonprofits have such a significant role in this area and therefore as large a portion of revenues from this source.

One important overall result of HPs' pursuit of multiple ways to earn income and gather resources is a very diversified base for members' core operating costs. As Table 3.7 shows, the largest single source of operating revenue, developer fees, provides just over one fifth (21 percent) of the total. Philanthropy is next at only 13 percent. Four additional categories are around 10 percent each. In all, nine different sources of revenues provide at least half the operating revenue for some survey respondent.

The other key result is that HPs' total earned income is in the range of 59-79 percent of all operating income. Unfortunately the two government categories (federal, state/local) in Table 3.7 do not distinguish between earned income (contracts and fees) on the one hand and grants on the other, so that we cannot be more precise. But assuming even the extreme case that no money in those two categories is in the form of a contract or fee, nearly 3 of 5 operating dollars are earned by carrying out specific functions; and the number may be as high as 4 of 5 if all money in those government categories is earned.[30] Developer fees, project management fees, and cash flow from properties are all in the top tier of sources of operating funds, and ten

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[29] If no profit center is listed by a respondent, we cannot tell whether there is no center or whether the organization just did not respond to the question at all. The 37% presumes all blanks were negative answers and thus is the lower bound of possibilities.

[30] These numbers could be even a bit higher if the dollars in "other" are some other way of earning income.

different earnings categories produce at least some level of revenue. The stated commitment to earned income has clearly been put to substantial practice by HPN members.

Housing Partnership Network
Table 3.7. Sources of Operating Revenues (Mean Percent Distribution)

	Mean Percentage
Programs / Sources	
Cash flow from properties	9.2%
Development fees	21.1%
Loan origination/servicing	2.2%
Property management fees	11.2%
Asset management fees	3.2%
Federal government contracts/ fees/ grants	10.6%
State / local government contracts / fees/ grants	9.9%
Consulting fees	1.0%
Other fees for service or sales activities	3.1%
Investment / Interest income	4.9%
Foundations / corporate philanthropy	13.4%
Donations from individuals	2.1%
Other	6.5%
TOTAL	98.3%

Relationships with Networks

As befits their names and original conception, Housing Partnerships have established important links to sets of other players in the housing arena from the start, worked to maintain and build them, and used those relationships to specific benefit in their work. Important among these are relations with:

- civic leaders who help create the organizations
- local government
- banks
- board members
- partners in the provision of resident services, development activities, and other business lines.

Civic Imprimatur

A great many HPs are born with civic imprimatur. Often their founding board members include influential people representing major institutions in public and private sectors. Frequently they received a significant set of initial funds and other resources at the start from those and other civic actors. And the participation of civic leaders gave them instant credibility, cache with public decision makers, and access to additional grants and loans.

Naturally the specific circumstances and arrangements varied. Action Housing was created as part of the huge Pittsburgh Renaissance renewal effort, with major corporate, foundation, and other civic leaders helping to conceptualize and found the organization and participating on the board of directors. Several HPs were created as the result of city task forces' efforts to develop strategies for housing for low-income people and neighborhood improvement. For example, CMHP was born as the result of a collaboration principally between the city of Charlotte and two banks, arising from the recommendation of a larger task force created at the city level to address those issues. Both the city and the banks provided major resources for initial core support and for projects and sat on the board of directors. Indianapolis Neighborhood HP is another example specifically of a local task force generating a new nonprofit. CSA followed a different local government route, formed to serve as a nonprofit CAP agency by the City of Chandler and Mariposa County and initially staffed by county employees.

At the state level, WPHD was created with the specific support of the then-governor of Wisconsin and received a start-up grant from the state's housing finance agency. Its board coupled high-ranking state-level officials[31] and lenders. Its founding and still CEO, and the prime person in conceptualizing its role, was already a major player in a state housing agency. Century Housing was formed out of what was originally a state agency, which had been created in response to a lawsuit around the housing impacts of Century Freeway.

Various other civic groups and lenders gave HPs their start. Mid-Peninsula was founded by Stanford faculty and the Stanford Urban Coalition. The initiators included a link to Hewlett Packard founder David Packard, who provided a personal loan to the organization at a critical early point. The Enterprise Foundation was central to the creation of GMN, initially as a provider of capacity-building technical assistance to other nonprofits. Lenders seeking to make CRA-qualifying loans were a key component of the board.

Not every HP had the stamp of big-money, high-visibility founders. Some like CCHT, TRF, and BRIDGE reflect the efforts of housing and lending activists, local churches, and the like. But a large percentage of HPs opened with advantages of explicit blessings and substantial initial funding from broad civic leadership in government and major nonprofit and for-profit

[31] Though not the housing finance agency, which opposed creation of the spin off.

institutions. Certainly it would be unusually for community development corporations or for-profit real estate companies to garner that combination of advantages.

Local Government Relations

Blessed in many cases with substantial support—in commitment, credibility, and cash—from local government at their births, HPs build on those initial links and maintain very good relations with those governments over time. These relationships are key to gaining operation and project funding and to securing sites and project entitlement approvals, and they help smooth access to other players as well.[32] Initial links often include both elected officials and agency or department staff, and whether they do or not, HPs thereafter pursue continuing connections with both.

Over time the relationships become based on a combination of the initial links, continuing communication and personal connections between HP leadership and local officials, and HP performance in meeting local government's and their own goals. CMHP provides a good example of this interplay. As noted above, the company grew out of a city task force and was effectively created to be the key nonprofit in the affordable housing arena. Both elected and appointed city officials have served on the board of directors since the beginning. CMHP's CEO carefully tends a continuing relationship with participating city councilmembers, meeting on a regular basis outside of board meetings to keep them informed on plans and progress. She has a community relations staff person who shares substantial responsibility for promoting links with both councilmembers and housing and community development staff.

The City has funded CMHP on a large-scale, continuing basis, covering project pre-development and development. CMHP has for its part developed projects consistent with its promises and with City priorities and concerns (location, etc.). When a housing department director tried to cut sharply CMHP's funding, the CEO was able to use her established contacts and credibility to persuade the Council to continue support at its high level.

CMHP maintains a continuing consultative relationship with city staff. For example, after demonstrating its ability to revitalize a key distressed neighborhood, the company now discusses the choice of next neighborhood on which to work with city officials. They agree on the top priority target, CMHP focuses its effort there, and the City provides additional dollars beyond its annual overall grant for CMHP's use in that neighborhood.

Mid-Peninsula's work is spread over a large number of jurisdictions in the San Francisco Bay Area, and it began without special linkages to the public sector. The hot real estate market

[32] See Mayer and Keyes, "The Role of City Hall in the Community Development System," NCDI, 2006 for an expanded description of the important roles of local government in forwarding the work of nonprofit developers.

and high land costs mean good affordable housing sites are at a premium and government-controlled sites are of special importance. The organization's good work in its original home-base city led to repeat business there and to invitations by other local governments to propose or compete for their projects. Now much of their work is repeat business in the range of jurisdictions where they have produced previous successes. And after relying very heavily on their performance, the organization has lately re-emphasized the maintenance of personal linkages with local officials.

WPHD worked closely with players in Madison on the development of that city's inclusionary zoning ordinance and gained support for mixed income housing development in that community. CSA's track record and personal linkages make Phoenix officials willing to commit a major portion of the City's affordable housing funds to that single organization, and its willingness to tackle small scale projects in the Valley and elsewhere in the state has earned it resources and cooperation elsewhere in the state. Overall, city links are well maintained and very high in value. For a good number of members, the positive relations extend to other state and local entities including the state housing finance agencies.

Bank Connections

All of our site visit HPs and many others also have strong continuing relationships with for-profit banks. As with local government, often these connections began with active multi-lender participation in the founding of the organizations, including as leaders or co-leaders of housing task forces and similar efforts. Lenders were frequently a major source of start-up operating funds and working capital as well. In GMN, for example, lenders looking for CRA opportunities were early participants. Early HP programming has often included administration of or other participation in loan pools that lenders provide.

Bank relationships tend to run over the long term. Growing HPs become good customers (1st tier) to their frequent bank partners, borrowing and successfully paying down loans and providing profits to the banks. Many components of member borrowing qualify for CRA credit to the lenders—increasing the value of their business. Mid-Peninsula, for example, has bankers that go back to its early days. It obtained a first line of credit for $100,000, but that line has now grown to $7 million. When a key banker moved to another institution, the line and broader banking relationship was transferred to his new employer. Again as with local government, repeat business benefits both parties. WPHD's principal banker in their large Uplands development project is eager to provide financing on additional phases of that project and on other of the company's projects, despite the hold-ups and resulting cash flow problems that the original project produced.

Indeed for many of the HPs, there is active competition to be their banker for project loans and for lines of credit. Some of the organizations have substantial lines of credit, likely from commercial lenders.[33] Half (21) of the survey respondents reported lines of credit of at least $100,000 (mostly $250,000 and more) and all but one of those had an unused portion of the line of over $100,000. Those totals include lines for real estate development and lending and organizational operating purposes, and flexible lines for any use deemed necessary by the HPs. Many of the lines of credit were for very significant amounts. The average size of credit lines in total per organization was nearly $2 million, even including those who had no line at all, and nearly $4 million for those who had at least one line.

And neither survey responses nor site visit interviews identified availability of construction/rehabilitation loans, permanent loans, or in most cases property acquisition loans, from commercial lenders as a problem area for HPs current work or growth.

Bank consolidation was not considered a problem for developer HPs, in terms of credit availability and terms. Consolidation may even have aided HPs by increasing the importance of CRA credits to merging organizations.

For those HPs which are lenders, banks are one of the central sources of capital. Most of the limited sample who reported to us on their sources of capital received the largest share from commercial lenders, although foundations/program related investments and internally generated funds are important as well. For the HP lenders, bank consolidation seems to have posed real disadvantages. TRF says that banks continue to see them as a borrower rather than a " peer financial institution," limiting the amount any single bank will invest in them. If no single bank wants to invest more than $5 or $10 million, for example, and the number of banks willing to make commitments of this size shrinks, then TRF's pool of available credit shrinks as well.

Roles of Chief Executives and Boards in Networks of Relations

For both local and state government and commercial lenders, the credibility of and contacts with members' CEOs is centrally important to the building and maintaining of relationships. In some cases that connection extends to prominent seconds-in-command. At least in the organizations we visited, the executive directors are highly respected leaders in their fields and of very long tenure in their organizations—indeed often founding directors or leaders in re-inventing and sustaining the companies. When communities (neighborhoods, local jurisdictions, etc.) invite one of these organizations in to carry out some function or select their proposals, it is often because they know these strong and visible leaders. Many of the CEOs and deputies also have wide collegial contacts from former positions and from experiences in leadership roles they have taken in advocacy, education, and similar visible activities and

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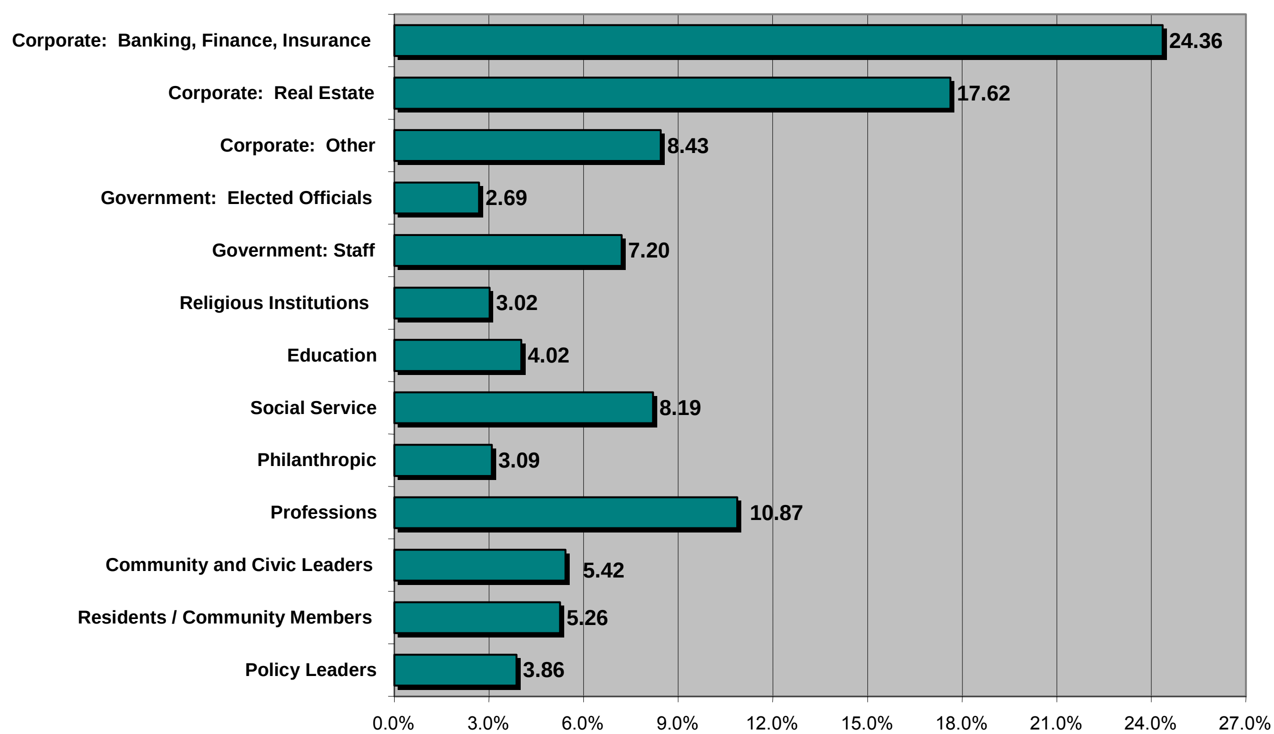
[33] We asked members to indicate amounts of lines of credit, which we assume by the use of that specification are generally from commercial lenders; but we cannot be sure that none are from public agencies, philanthropic sources, or community development intermediaries.

coalition efforts. As we have noted more generally, the quality of succession in the CEO position will therefore be crucial in sustaining external relations.

HPs' boards of directors, as implied in the civic imprimatur discussion, typically started out as "top down" rather than heavily community resident based. These board members played important roles in helping to establish immediate credibility for the organizations, obtaining funding, and linking to other important potential partners and supporters.

The boards that started out that way have typically become more inclusive of residents and of people with substantive skills but not necessarily high civic or corporate positions—not however to the exclusion of civic and corporate participation. The current composition of HP boards is shown in Figure 3.7. Bankers still constitute the largest group, at just under one quarter of all board members. We do not know how many of all those bankers are top civic leaders and how many are connected more because of hands-on banking relationships, but most of those we met on our visits were in the latter category. And the "other corporate" and "community and civic" categories that might also include civic leadership that was significant at HP birth are now small parts of boards. Of course there may be other leaders who provide links but are not board members themselves, both early on and today.

Figure 3.7. Percentage Composition of Board of Directors per HP by Sector



People with specific professional expertise seem to dominate current boards. The combination of bank, real estate, other corporate, and government/agency staff members totals nearly 60 percent of all board participants. While bankers' presence still helps in some cases in gaining loan approvals and obtaining the best below-market interest rates, the board function of access to civic leaders is less prominent than earlier. Boards now provide only very limited direct connections to the public sector (6 percent public members, and rarely elected officials). With organizations' reputations quite well established, boards are relatively more involved now in policy-making, strategic planning, and technical advice on project financing and structuring, along with some contact facilitation. For example, at CMHP board members with development and construction experience helped to design competitive units for the higher income level residents in mixed-income housing, when the organization first entered that arena. At WPHD, board members pressed for a strategic change to return to work in Milwaukee, where many of the state's poor reside. And former governor and now board chair Tony Earl leads contacts with that city's mayor and other political players. In the main, however, HPs appear very much staff rather than board driven.

HP boards do not tend to have large numbers of representatives from the buildings they own, neighborhoods in which they work, or other resident contexts. Only 6 percent of board members are chosen because they are residents of HP buildings or surrounding communities. Even if a significant share of the community and civic leader (including neighborhood associations) and religious community members are local residents and counted in that grouping, the proportion is less than one eighth of all members.

That is not surprising given their origins and the broad geographic areas they cover. It does mean that they necessarily rely on a combination of engaging civic leaders, partnering with more local community-based organizations, and newly collaborating with projects' neighbors to gain and demonstrate community support and to obtain community input for their projects.

Other Important Partnerships

HP links to a number of other sets of players in affordable housing are important substantively. These players include:

- Resident services providers
- For-profit developers
- Neighborhood organizations and CDCs
- Technical assistance providers, and
- Property management firms.

Organizations that directly provide resident services are extremely important partners because many HPs involved in such services do little or no direct provision themselves. Instead they contract with others, or invite in partners who have their own service funding. The other organizations are frequently more expert in service delivery and have the advantage of existing scale economies in their areas of specialization. ACTION is a case sharply illustrating these circumstances. Although they deliver some services themselves, they serve many special needs by acting as developer for organizations that focus on working with the target populations. The sponsoring organization takes ownership of the property and delivers the services on a continuing basis, while ACTION moves on to other developer and technical assistance roles. CCHT reflects some HPs desire to leave both the funding and service delivery to others. Their view is that partnering allows leveraging of additional resources beyond what each partner could obtain separately.

Partnering with for-profit developers also plays an important function. HPs and for-profits do development projects together. These include cases in which they partner on the same project or in a subdivision arrangement in which the for-profit handles all or much of the single-family and/or market rate development. Private developers provided credibility early on in HPs development history, which translated among other things into experience and capital for better competitiveness for LIHTC and other resource allocations. Private developers also served as efficient builders and effective marketers especially in the single-family realm.

Some HPs, including for example BRIDGE and WPHD, are explicitly collaborating in mixed-income, inclusionary developments with for-profits. While exact arrangements differ, generally the for-profit has responsibility for market-rate units and the nonprofit for the inclusionary units, with some cross-subsidization lowering the public sector cost of the latter. For-profits are also owners of significant portfolios of subsidized housing with expiring income restrictions and need for preservation, who seek out HPs as likely customers for the projects.

Neighborhood organizations and CDCs play mixed roles with HPN members. HPs we visited seem typically to try to stay out of the way of CDCs, not operating much in their territory unless explicitly invited by the community, or developing partnerships with local CDCs with defined responsibilities for the partners. There is some amount of jealousy from both sides concerning funding levels.

HPs try also to limit controversy with neighborhood organizations where they seek to develop projects by, if possible, finding sites that can accommodate their efforts without zoning changes or other entitlement issues and building within those limits. As typically metropolitan or regional entities, HPs are inevitably outsiders at least at the start of development in a new area. They need to initiate communication with community stakeholders and their organizations, to develop approval for potentially controversial projects.

HPs do use technical assistance on some of the complexities of structuring financing and negotiating deals, as well in some instances with construction management and other functions. In various situations, technical assistance provides continuing advice and counsel, aid in stretching the boundaries of past action, and capacity HPs could not or did not choose to keep continuously on board. For example, Mid-Peninsula has long used a particular housing finance expert as a sounding board for the CEO and as an aid in adopting innovative financing means, helping the organization manage its work with a less experienced project development staff (outside the CEO). At CSA, years ago when the prime development staffer became the current CEO, two consultants were used on a continuing basis during a period in which there was limited development staff capacity available.

Overall, HPs remain very much engaged with other players in carrying out their work. The early blessing by civic leaders and early access to significant resources, some aspects of the continuing collaboration with local and state government, the position as the “go to” organization in at least some significant set of their communities, and the continuing participation of lenders and other technical and professional members on their boards particularly stand out as signature linkages for these organizations.

CHAPTER 4: BARRIERS AND POLICY ISSUES

What are the barriers that HPs face in their work and the policies that might be changed to their benefit? We invited all survey respondents to raise policy issues in general, and questioned them about some specific issues as well. We also encouraged site visit interviewees to expand on these topics—probing for significant matters regarding both public activities and private. Nine issue areas were either highlighted by several or more HPs, raised as important to a particular organization with the potential to impact others, or both. These are:

- Obtaining access to adequate working capital and liquidity
- Freeing "trapped" capital, equity and cash flow
- Shortage of deep subsidy
- HUD regulatory issues with impact on HPs in particular
- Allocation of 9 percent LIHTC tax credits
- Exemption from or reduction of real estate taxes for nonprofit affordable housing
- Coordination of decision-making for multiple project funding sources
- Lagging subsidy levels, and
- Need for funding for resident services.

However, it should be noted that these topics were at least not mentioned explicitly by most members.[34] From our site visits, we learned that HPs tend to find ways to work with and around various policy obstacles. And at least at the federal level, they have relatively low expectations about their ability to cause (or join in causing) change in the short run.

Further, as we have discussed at some length earlier, HPs solve many policy problems, from home mortgage foreclosure to lack of housing affordable to the very poor, by initiating programs and projects of their own or shared making. These are a significant component of HPs' business lines and products.

Immediately below, we address the nine policy issue areas in turn.

Access to Working Capital and Liquidity

Especially for HP developers, the availability of working capital is an important matter. In particular they clearly need working capital in order to acquire property and pay for pre-development costs through the lengthy periods before plans are prepared and entitlements and

[34] Including a substantial number who may not have addressed the policy question at all.

financing captured. Liquidity is an important related issue. Developers may have substantial capital tied up in land and other assets for their pipelines of projects or equity in existing projects which they can not easily access for various economic or regulatory reasons.

Because of the issue's potential importance as an obstacle, we asked specific questions in our survey about whether HPs encountered problems in working capital and liquidity. The central finding is that these issues did not pose major challenges in terms of resources for real-estate project pre-development and development purposes in general, but that specific types of working capital, in specific circumstances, are a need which a significant number of HPs would like to see addressed.

Nearly half of HPs (48 percent) indicated that liquidity was a problem for their organizations' current real estate development or lending activities (in a "yes" or "no" question), and the same percentage saw a liquidity problem for expansion of their activities in scale or into new lines of work. And nearly half reported no access to a line of credit for real estate development and lending or operating expenses. But when we asked for discussion[35] of the liquidity and working capital issues, HPs highlighted not a *generalized* shortage of accessible capital for their regular development activities, but a set of more particular needs.

HPs did say it is challenging to accumulate capital through retained earnings from the provision of services (as developers, property and asset managers, program administrators, lenders). Inherent in the affordable housing industry and nonprofit mission is that little capital is obtainable through asset appreciation or large cash flows resulting from rising rents, since rents are restricted by contract, regulation, and HPs' own goals, as are distributions of any gains. And most assets are already highly leveraged. The mechanisms that market-rate and/or for-profit housing developers use to accumulate capital for further projects are largely not available. For nonprofit affordable housing developers including HPs, it takes a careful watch to identify some opportunities in which cash flow, equity, and capital more generally can be built and accessed.

But the situations in which HP developers encountered general insufficiency problems with liquidity and working capital were the exception. Rather than as a challenge in the normal course of operations, these were cases in which a significant project or market problem demanded large chunks of organizations' working funds. At WPHD, for example, slower than expected progress on their major development project—due to HUD regulatory issues and a somewhat softer sales market—created a severe cash flow crunch for the organization as a whole. When the Phoenix rental market turned soft in the face of low costs of homeownership (given low mortgage rates), CSA shared some of the financial stress. Though their care in establishing cash reserves and their reputation for working out problems saved them from losing buildings, they were forced to defer the launch of new work in resident service provision.

[35] In the survey and on site visits.

Another stress on CSA working capital availability arose when an equity investor dropped out of a project at the last minute and the organization was forced to leave a major piece of their own money in the project. In more usual circumstances, careful cash management and—including advance notice of impending large expenditures—and access to outside capital were sufficient to avoid liquidity crises.

For ordinary pre-development expenses—site acquisition (with important exceptions), project design, permit fees, etc.—HPs told us they drew successfully on secured lines of credit, the Housing Partnership Fund, loan and recoverable grant financing from other intermediaries, their own retained earnings, foundation grants and in some cases PRIs and similar concessionary loans (some partially forgivable) from banks. Table 4.1 describes that mix of pre-development funding sources, led by nonprofit lenders (including HPF) but closely followed by retained earnings, commercial lines of credit, and foundation grants.

Housing Partnership Network
Table 4.1. Sources of Funds for Pre-Development Expenses

	Mean Percentage
Programs / Sources	
Retained Earnings	17.4%
Commercial Lender Line of Credit	16.0%
Individual Commercial Loan	3.5%
Non-Profit Lender	19.5%
Recoverable Grants	12.1%
Private Foundations Non-Recoverable Grants	14.6%
State / Local Agencies	6.8%
Other	9.9%
Total	99.9%

Virtually no HP reported a consistent problem in this area, nor in obtaining construction financing—no doubt in significant part due to their own track records, the emergence of new or organizations such as HPF and other intermediaries, and improved attitudes toward these loans in the commercial lending market.

Larger scale lender HPs, on the other hand, did identify a broad and persistent challenge: the need for equity capital to serve as reserves against increased lending. The Low-Income Investment Fund and TRF were among those who highlighted this issue. They noted that narrowing margins between cost of money and interest earned would limit new retained earning accumulations and intensify this problem. CDFI funds, repeatedly slated for extinction by the current federal administration, have been an important source of capital for growth of lender equity for those obtaining these resources and would be a major loss.

Ideas for addressing lender challenges, especially from TRF, included pooling and securitizing portions of their loan portfolios, thus accelerating the process of being able to support further loans with existing reserves. TRF further indicated that required loan reserves to cover losses far exceeded actual historical rates of loss. Developing loss insurance, better matched to loss rates, could free up equity for leveraging additional loans. It appears that loss reserve requirements vary considerably among HP lenders. Perhaps there are mechanisms to move requirements of those with currently higher levels toward those experienced elsewhere, insofar as risk is similar.

Returning to HP developers, while these HPs did not have broad unmet capital and liquidity needs for project work, they did identify two kinds of capital in insufficient supply. The first is large scale equity or near-equity funds for the long term. The principal purpose is to be the acquisition of larger properties, or groupings of properties, whether land or existing projects. Long term is defined as at least 5 years (definitely longer than the two years that is currently prevalent) and preferably 10 to 15 years. Either equity or subordinated debt on highly concessionary terms are the forms that would be useful, to complement the borrowing that can be done secured by the value of the properties. Ideally, funds would be provided not just for a single project but for multiple projects as HPs identified them.

The funds would be used for projects that are relatively speculative, for which long-term financing is yet to be determined, and which are likely to take a significant amount of time to develop or improve. They could include land banking and acquisition for large existing projects (or portfolios of projects) for purposes of preservation, potential income, or converting to serve more low-income people. Such financing could also allow HPs to accelerate receipt of developer fees (and their use to pursue additional projects) in situations in which, absent the substitution of such long term equity, the fees might have to be long deferred. Some projects would benefit from such funds available for even modestly longer than 2 years, given the time-consuming process of assembling tax credit allocations and other funds on their complex of decision cycles.

GMN, CCHT, BRIDGE, and CSA are among the HPs which highlighted the desire for such capital. CSA and Eden Housing are among those that already have some capital of this description, obtained from Wells Fargo Bank. BRIDGE has potential access to PRIs that provide the desired loan terms but finds the individual tailoring that they usually involve to be too time consuming for funds of too modest size, while other companies with somewhat smaller projects in less costly markets may find these a better match.

The second—and overlapping—specific need for capital is for quickly available financing on both smaller and relatively large scale, for acquisition opportunities in land and existing housing. The central characteristic is speed: funding in the hands of HPs in advance of specific project opportunities, or able to be allocated very rapidly, to allow members to compete for properties in hot markets. Again a key is for equity or near-equity investment to complement secured first mortgages in property purchases. But such money in smaller amounts could also be used for purchase deposits, due diligence, or fees and deposits related to holding fund allocations. This is an especially acute need in hotter markets and those heating up, in which sellers have multiple buyers form which to choose, can select those able to move most easily and quickly, and can demand significant early commitments of deposits and in which good project sites are rare. Again ideally funding would be for a pool of multiple potential projects rather than invested on a project by project basis.

Interesting policy questions related to these specific capital needs might include:

- Whether some combination of public and private actors could use collective action to assemble such investment funds, and
- Whether some of the lenders within HPN could collaborate with the HP Fund and HP developers in creating them.

The other working capital and liquidity concern receiving significant mention from HPs is capital for major expansions into new lines of work or for sharp increases in scale of current activities. To begin a property management function, spread development geographically, or hire staff to start up a new set of development projects—as examples-- requires capital that is at least patient and may not be able to be repaid. With limited ability to self-generate liquid equity, as noted above, HPs defer further extensions of their work.

"Trapped" Capital, Equity, and Cash Flow

HP projects have over time received subsidies from a wide array of federal, state, and local programs. Many of the programs place conditions or restrictions, beyond rent limitations, on the develop/owner's ability to take money from a project, even when there are sufficient funds being generated relative to expenses to allow it. This limits the ability of HPs to build their own capital through project operation.

There are a variety of specific instances in which such restriction occurs.[36] Sometimes programs, especially loans and guarantees but others as well, specify the level of funds to be set aside as operating or replacement reserves that exceed actual expenses.[37] Program

[36] And we do not attempt to detail the program/project rules that cover these many cases.

[37] It is important to note that in many cases HPs are instead confronted with a shortage of reserves and inability of the projects to generate funds to expand them. Covering such situations is in fact one of the reasons HPs would like to be able to extract funds from projects with surpluses, as a funding source for those in shortage.

requirements may not allow HPs (or others) to reduce reserves (or new reserve funding) to the levels that correspond to actual experience and projected needs. In other cases, surpluses of rents over operating costs, debt service, and necessary reserves may be required to be set aside in residual receipts or excess income accounts, not accessible to HP owners as cash flow nor as a revenue stream against which to pay for refinancing that takes out equity. Or nonprofit owners may not be eligible to receive surpluses in cases where for-profits are allowed to do so. In still other cases, soft loans may require that all of residual receipts be used to pay off local government deferred or other concessionary lending, with none available to the owner for many years.

It appears that many HPs treat these conditions as a normal part of doing business with sources of funding for low-income housing. CMHP noted that, at least for their projects, which are mostly relatively recent with substantial local government financing, any surpluses released by other funders would be gobbled up by local government taking 100 percent of residual receipts anyway. Their conclusion is that there is no point in worrying about the other restrictions.

Some others—perhaps with particular portfolio conditions that allow them both surplus generation and maneuverability—are finding ways to extract the funds that have been or could become trapped. Part of that effort involves gaining approval of sufficient management fees and other sources of revenues as project expenses to eliminate residual receipts while directing funds to the HPs. Some efforts involve relatively complex asset management efforts designed for gaining access to surplus accumulations. An example is the work of Mid-Peninsula, which through a series of related transactions is reaping very substantial capital from its projects now and is primed to expand that over time (see box). Other HPs report some success in negotiating with public agencies over treatment of individual projects.

Members express low expectation of being able to change policies, especially with HUD, in the near term. It might be useful for HPs to do additional comparing of their “trapped” asset circumstances and the approaches they have taken to them with those of fellow HPN members, to see whether there are strategies that might be shared.

Shortage of Deep Subsidy Funds

Mid-Peninsula Housing Collaborative Turns Assets into Development Capital

MP is systematically looking at its portfolio of assets to identify opportunities to generate cash that it can use to pursue additional projects. The multi-part effort just now being implemented is illuminating. MP wants to help itself to pursue multiple goals within its broader mission, by pulling money out of its own projects. These purposes include at least: generating capital it can use to move quickly to acquire properties available in the market from sellers unwilling to wait while a non-profit assembles the funding sources necessary to purchase the property; building capital for land banking acquisitions to protect against further run up in prices in areas of projected growth and affordable housing need; paying off HUD financing on projects currently in their portfolio so that they can use the cash flow and reserves from the properties as they please, e.g. cross-subsidizing those with inadequate reserves from those with excess; and being able to pursue with their own money multi-family-zoned sites and development in localities which might prefer a non-affordable housing use and withhold local funding to MP as a potential developer.

Reviewing their own portfolio for projects that could be capital generators, MP identified two projects with substantial cash flow and opportunities for resyndication and refinance—one with project-based Section 8 rents that had risen rapidly in the hot market, the other a mixed-income project with rent restrictions mandated on only 20 percent of units. They will sell the properties to partnerships in which they are general partner, financing with tax-exempt bonds, 4 percent tax credits, and seller financing. Proceeds, along with capital freed from reserve requirements now ended, will be used to rehab the buildings, improve affordability in the one with mixed market and affordable rents, pay off the mortgages on 10 other MP properties, and still have millions of dollars left for its newly created Strategic Mission Fund. MP will then obtain a line of credit secured by the 10 properties and continue to add to its FUND from future developer fees and from repayments of the seller financing on the two projects. They expect to generate a $20 million Fund over 10 years or less, to use for the purposes described and other mission-relevant expenditures/investments as they arise.

MP also intends to continue to review its portfolio for other opportunities to extract resources without sacrificing the level of affordability to residents.

MP identified opportunities of another kind in its asset review: the ability in some cases to demolish low-density housing on larger plots of land and replace it at higher density. And they are pursuing an additional property at a former military base that has that potential and may be able to use cash they are generating for their Strategic Mission Fund to help cement that acquisition.

The most obvious of policy issues for HPs—and many other affordable housing developers—is the shortage of deep subsidies to make projects feasible at low rents. The fact that many HPs are trying to reach people at very low and extremely low incomes, and to serve populations with special needs, makes the problem particularly acute. Projects cannot reach that level of affordability without significant allocations of HOME grants and deferred loans, Section 8 project subsidies, 9 percent LIHTCs, and grants and concessionary loans from state and local housing trust funds and other sources. Indeed, many people with special needs or very and extremely low incomes cannot afford rents that cover even operating costs. For them, project-based Section 8 or similar demand-side mechanisms are the only option, because capital subsidy sufficient even for all of capital costs is not sufficient.

There is simply not enough money in those pots to provide capital to the level of project activity potentially generated. CCHT reports, for example, that their cash-strapped state allocates only part of the money a project needs in a given funding round, in order to spread limited funds more widely. The consequence is to further extend already long and expensive periods of pre-development. Many HPs are vocal in expressing the subsidy need and advocating for the monies in public forums; but the shortage if anything grows, even as HPs seek to expand their production. HPs retained earnings and other sources of working capital, which they are successfully building, can in no way substitute for these deep project subsidies.

Allocation of 9 Percent LIHTCs

Given the shortage of subsidies in general and LIHTC allocations in particular, the rules by which projects are selected for LIHTC allocations is very important to HPs. The overall issue is to make the Qualified Allocation Plans (QAPs) which guide project selection more favorable to the kinds of projects that HPs often do. According to survey respondents, among the QAP elements that (would) help HPs compete are granting additional consideration for:

- serving households at incomes lower in the spectrum (30 percent or 50 percent of AMI) rather than 60 percent of AMI
- the high cost of serving special needs populations
- higher costs in difficult neighborhoods, urban areas more widely, and high-cost market areas wherever they arise
- the value of preservation projects for existing subsidized housing
- projects with a real, substantive nonprofit participation, not rent-a-nonprofit token participation.

HP executives at CCHT, GMN, and CSA, among others, are often active in the bodies that debate and recommend QAP standards. CCHT, for example, reports that Minnesota has established a preference for lower cost projects, which runs directly counter to the directions

CCHT are heading in location and client need. ACTION indicates that their projects are disadvantaged even within the LIHTC set-aside for preservation projects. Large cities like Phoenix and Charlotte still obtain LIHTCs for less than a handful of projects in a given year, and productive HPs have to aim for a significant portion of the pot likely to become available in their territories. A potential question for consideration is whether there is a logic for expanded information-sharing among HPs about their QAP struggles or for HPN involvement in education and advocacy at a state level.

HUD Regulatory Issues with Impacts for HPs in Particular

At least in particular regions and perhaps nationally, some HUD interpretations of statutory and regulatory language in housing and community development programs have important impacts for HPs, given the common modes of HP operations. WPHD particularly highlighted several examples, including ones with potential national implications. One is a HUD ruling about the role of CHDOs and non-CHDOs in potential partnerships. The Department has taken the position that, if HOME CHDO set-aside funds have been (are to be) used in a project, that triggers a narrowly defined requirement for complete control of the project by the CHDO. Many of the typical partnering forms that HPs might pursue with local CDCs or other CHDOs would be excluded from possibility. Otherwise, the opportunity to use CHDO funds would be sacrificed. The impact of course is especially pointed for a usually metro/regional or statewide HP, which is frequently not a CHDO but might well want to join with one in carrying out and owning/operating a local development.

Regulatory problems of these kinds can lead HPs (and others) to pursue waivers from HUD. Members report that this process is extremely slow and difficult to navigate. It is not clear whether there are rule changes that are sufficiently consequential to many HPs and in which HP would carry significant weight to justify attempts at joint action to obtain change.

Property Tax Treatment of Nonprofit Affordable Housing

Limitations to the favorable tax treatment of HPs’ projects for real estate taxation were a very current problem in three of the eight states visited for this study. In Minnesota, Pennsylvania, and Wisconsin, CCHT, ACTION, and WPHD were either in the midst of or just finished with efforts to protect nonprofit affordable housing from worsened property tax treatment. The issues more widely are two: (1) whether the housing will be given a flat exemption (or partial exemption) from property taxes and (2) if not exempted, will rent-restricted housing be taxed at value driven by actual rents or at theoretical value were the rent restrictions removed. In the worst cases, no exemption is granted and the developments are treated as market-rate housing by local assessors. In the best cases, the tax is substantially reduced or eliminated, providing a significant affordability advantage to HPs. GMN reports the tax exemption served an important role in allowing their acquisitions of rental housing to turn a modest surplus.

We did not determine how many other HPs besides those we visited are in danger of losing property tax advantages already in place or wish to improve a poor current tax situation. If our small sample was somewhat reflective of the breadth of this issue at state and local levels, it may deserve expanded information and strategy sharing among HPs.

Coordination of Decision-Making Among Multiple Project Funding Sources

HPN members' projects and affordable housing projects in general take a long time to develop in significant part because they need multiple funding sources, each with its own fixed timing for decision-making and not necessarily timed to coordinate with each other. Added to the timing problem is the desire by many funders to be the final source committing to the project. And time is most certainly money for developers holding sites, buildings, or expensive options to purchase. Many HPs mentioned this difficulty not so much as a policy matter but as an issue in their cost of doing business or the adequacy of working capital stretched by long pre-development tie-ups of cash.

But there is a potential policy dimension. Are there models, or can models be developed, demonstrated, and disseminated, in which some simultaneous decision-making, rolling decision-making, or a mix of these and other mechanisms shorten the development process enough to lower costs and raise efficiencies? Similarly, are there models for harmonizing scoring criteria to help assure that priority projects receive the multiple funding approvals they need to move forward? Given the importance of efficiency and the optimal use of capital to which many HPs subscribe, such possibilities, if feasible, might deserve some shared attention.

Lagging Subsidy Levels

Local jurisdictions frequently put explicit or implicit limits on the funding they will allocate per project or per unit, especially from HOME funds but from other locally controlled and sometimes generated resources as well. GMN and CSA are among those HPs that mentioned the significant lagging of these maxima behind the rising costs of development, especially—as one would expect—in areas in which land and construction costs have been rising rapidly. Recent rapid construction cost increases have likely made such situations widespread. The lag can squeeze HPs’ ability to obtain developer fees from projects in a timely way if at all and threatens the viability of some projects unless still other fund sources can be found. There may be an information and education function that HPs can help forward to encourage local governments to keep their per unit subsidies more tuned to increasing costs.

Funding Needs for Resident Services[38]

Many HPs are eager to expand resident and community services—and are being encouraged to do so by project funders—at a time in which funding for new and existing services is declining. At the same time, project budgets are often tight in terms of funding for services from cash flow and development project funders are not in financial position or disposition to make that easier.

We have seen that resident service provision does not generally pay for itself as a line of business and that HPs expect to have to raise funds or use earnings from other lines to pay for it. They have tried to minimize the costs and funding burdens by contracting out to organizations with their own service funding, acting as referral agents to public and private providers, recruiting volunteers, and other means to shift costs. But increasingly other organizations are too financially strapped to absorb such shifting. Some HPs have aimed at bringing down property management costs (through self-management) and attempting to find room in operating budgets for an increased share of service costs. They have tried to select wisely the services to provide at particular projects, in part by better measuring effectiveness, and to maximize their capture of available resources. Effective case management and service integration systems to serve multiple needs and encourage self-sufficiency are being explored and implemented.

Successful (and unsuccessful) models need to be shared, as HP members and HPN have already begun to do on an organized peer networking basis. But HPs judge that not all needs can be met, especially for resident populations with multiple challenges, just from being resourceful and efficient. Added public and outside private funding for services is required as well.

[38] This topic receives additional attention in Bratt, “Housing Plus: Strategies, Challenges, and Potential of Programs Provided by Members of the Housing Partnership Network,” May 2006.

CHAPTER 5: CONCLUSION

We have seen that Housing Partnership members of HPN are major and growing producers of mainly rental housing. They are frequently providers of associated management and resident and community services in their own projects and beyond, while a smaller subset have a still significant role in lending for housing development and home purchase. Both their aggregate and individual scale of activity is substantial compared to other developers of rental and affordable rental housing, despite the very modest number of HPN members. They deliver an important portion of national affordable rental housing output, and the average production of an individual HP well exceeds that of other CDCs and similar nonprofits and that of average multi-family for-profit developers as well. HPs are often the “go to” organizations within their territories on housing projects and in a good number of cases on housing program development, and the quality of their development and property management work is rated among the highest in their regions. Scale, scope, and competence earn them a natural place at the affordable housing table.

HPs share many commonalities in the way they go about their work. Their development focus is quite consistently rental housing, for people of limited means, and, for most members, concentrated more on benefiting the households involved than on place-based revitalization. Combining housing development, management, and resident services contributes to the ability to meet individual people’s multiple needs. HPs’ geographic target is always at least regional, contributing importantly to opportunities for scale; and a significant number of organizations have been expanding their territories. Still, their evolution includes many changes of direction in response to market and other conditions, including false starts and failures.

The organizations themselves are of significant scale and longevity, with average staff of 60, budgets of $500,000 or more, and age of 20 years. They often grew by adeptly taking advantage of a kick-start circumstance of some kind and the blessings of significant civic and financial community leadership, building on those advantageous early conditions through strong performance. While a surprising number re-invented themselves over time, strong and long-continuing leadership allowed this shifting of functions midstream. Leadership succession and the attraction and retention of second tier staff are now or soon to be challenging issues.

HPs’ basic approach to their organizations’ finances are to aim vigorously to earn money from at least some of their various functions and to seek insistently to increase self-sufficiency, but within the context of pursuing their missions. They consider substantial self-sufficiency to be important to their speed and nimbleness in capturing opportunities and acting strategically. But they deliberately undertake money-losing activities—notably delivery of resident services—that meet their goals but try to make conscious choices about where and when to do that. And they do seem to pay a good share of their core costs with earned income from a diversified base of activities, including not only developer fees but also asset and property management fees and earnings from administering local and state government programs in homeownership/lending and other areas.

True to their names, HPs draw heavily on partners, especially civic leaders' aid with resources and credibility in the early stages of organizational development; cash and cooperation from local government; and long-term banking relationships. The partnerships are often true two-way arrangements, with the HPs delivering program responses to civic wants and needs, and profitable business and CRA credits to lenders in exchange for funds and in-kind supports.

On the policy side, HPs have gained generally good access to crucial public and private sources of working capital for real estate pre-development and development costs. But they continue to have needs for large scale working capital resources available quickly and for extended periods—in order to capture increasingly competitive opportunities for projects and sites especially in stronger markets; for patient capital for riskier longer-range development; for reserves against which to expand lending; and for liquidity to apply to major additions to project lines and scale. They share a series of policy concerns with other nonprofit and in some cases for-profit affordable housing developers, including such issues as the shortage of sufficiently deep subsidy funds to reach low-income people and offset rising costs, the allocation criteria for 9-percent LIHTCs, the property tax treatment of nonprofit affordable housing at state levels, the need for monies for increasing demands for resident services, and HP lenders' needs for additional equity capital to allow lending to expand.

HPN members have a strong story to tell of productivity and performance. That experience suggests that their policy concerns and needs for resources are worthy of attention, that affordable housing program development would usefully seek to fit with HP modes of operation, and that key aspects of HP ways of doing business may be deserving of emulation. Future research might focus more heavily on their business models and relation to performance, to extract best practices systematically. In addition, capturing more extensive comparable production information about both HPs and other affordable housing providers could usefully expand our ability to plan for effective pursuit of housing and related goals.

APPENDIX A

APPENDIX A: RESEARCH METHODS FOR THE HPN MEMBER STUDY

This study drew on three sources of information, all developed specifically for the purposes of the research. The three are:

- Extensive surveys e-mailed to each of the 82 (at the time of survey launch) HPN member organizations;
- Interviews with key HP staff, partners, and other informed observers on-site at eight of the member organizations; and
- Brief surveys e-mailed to every member requesting basic information about production levels in their major activities.

Observations and conclusions presented in this report in many cases take advantage of a combination of the sources.

The nature and use of each of these sources is expanded upon briefly in this section.

Extensive Surveys

Each member was asked to respond to a lengthy survey broken into four sections:

- a core survey section addressing HPs' origin, mission, staffing, and governance; geographic/market characteristics; corporate finance; and main lines of activities, levels of accomplishment, and constraints;
- a real estate development and ownership business line survey section addressing levels of production of housing and other outputs; development priorities and fund sources; property and asset management functions; sources and availability of financing; and policy and environmental obstacles;
- a lender and investor survey section covering loans for housing, businesses, and other facilities; equity investments for those uses; financial and nonfinancial services to borrowers and equity recipients; and environmental and policy obstacles; and
- a resident services survey section including volume of services delivered; sources of financing; and modes of delivery.

With prodding from HPN, half of the members (41) responded to the survey. Unfortunately, because of the length of the survey, many questionnaires were only partly filled out. In addition, survey sections were not applicable to those HPs that did not conduct the section-specific business lines. As a result, on some issues the number of respondents was well short of the 41 maximum.

Surveys included a large number of qualitative questions answered with narratives and a large number of quantitative questions with numerical answers. We calculated various summary statistics for the latter and arrayed the answers to the former for all respondents. The questionnaires themselves are available from the researchers upon request.

Site Visits and Interviews

Researchers and HPN staff jointly selected 8 HPs to visit, choosing organizations willing to participate in interviews; seeking a variety in geography, program focus and function, and scale; and including lenders as well as developers. The eight HPs whom we visited and their CEOs are:

- ACTION Housing, in Pittsburgh, PA; Jonathan Zimmer
- Charlotte-Mecklenburg Housing Partnership (CMHP) in Charlotte, N.C.; Pat Garrett
- Central Community Housing Trust (CCHT) in Minneapolis, Minn.; Alan Arthur
- Community Services of Arizona (CSA) in Chandler, AZ.; Sam Cioffi
- Greater Miami Neighborhoods (GMN) in Miami, FL.; Agustin Dominguez
- Mid-Peninsula Housing Coalition (Mid-Pen) in San Mateo, CA.; Fran Wagstaff
- The Reinvestment Fund (TRF) in Philadelphia, PA.; Jeremy Nowak
- Wisconsin Partnership for Housing Development in Madison, WI., William Perkins

Seven are principally developers, some with small scale lending operations, various levels of resident service provision, property self-management functions, and/or neighborhood revitalization components. Only TRF among the HPs visited is primarily a lender.

At each site, we interviewed more than a dozen individuals, including CEOs, managers of major business lines, and other key staff; board members and area residents; public officials; sources of loans, grants, and investments; technical assistance providers; partners in resident services; representatives of other citizen/neighborhood groups; and development and lending partners of other kinds. We used the interviews to expand on topics covered in the e-mail survey instruments, especially questions about such topics as policy barriers whose complexities were hard to glean from even written narratives; to gain perceptions of HPs' modes of work from observers outside the organizations themselves; and to address questions about organizational dynamics not easily addressed in mailed questionnaires.

The interviews were shaped by sets of questions developed for, respectively, CEOs, real estate development staff, lending and investment staff, resident services staff, and others outside HP staff (board members and outsider parties).

By design, we have significantly more information about how things work at site-visit organizations than others. Many of the specifics underlying our conclusions, and the examples used to illustrate key points, are drawn from the site visits.

Brief Surveys

An important aim of HPN and the research team was to obtain accurate counts of the levels of production in development, lending and investing, property management, and resident services from as much of the entire membership as possible, for the HPs' organizational lifetimes and for a current year (2004). For this reason, a far shorter questionnaire was fielded after the longer one was returned. It was limited to questions about scale and type of project and program activity and directed to members who had not returned the longer survey at all or had failed to answer key basic questions. Seventy-three HPs answered the shorter survey. The production numbers from this survey, substantially more complete than those drawn from the original, form the basis for many of the findings and conclusions reported in Chapter 2 on production.