OPPORTUNITY FOR ALL

Envisioning a National Preservation Strategy

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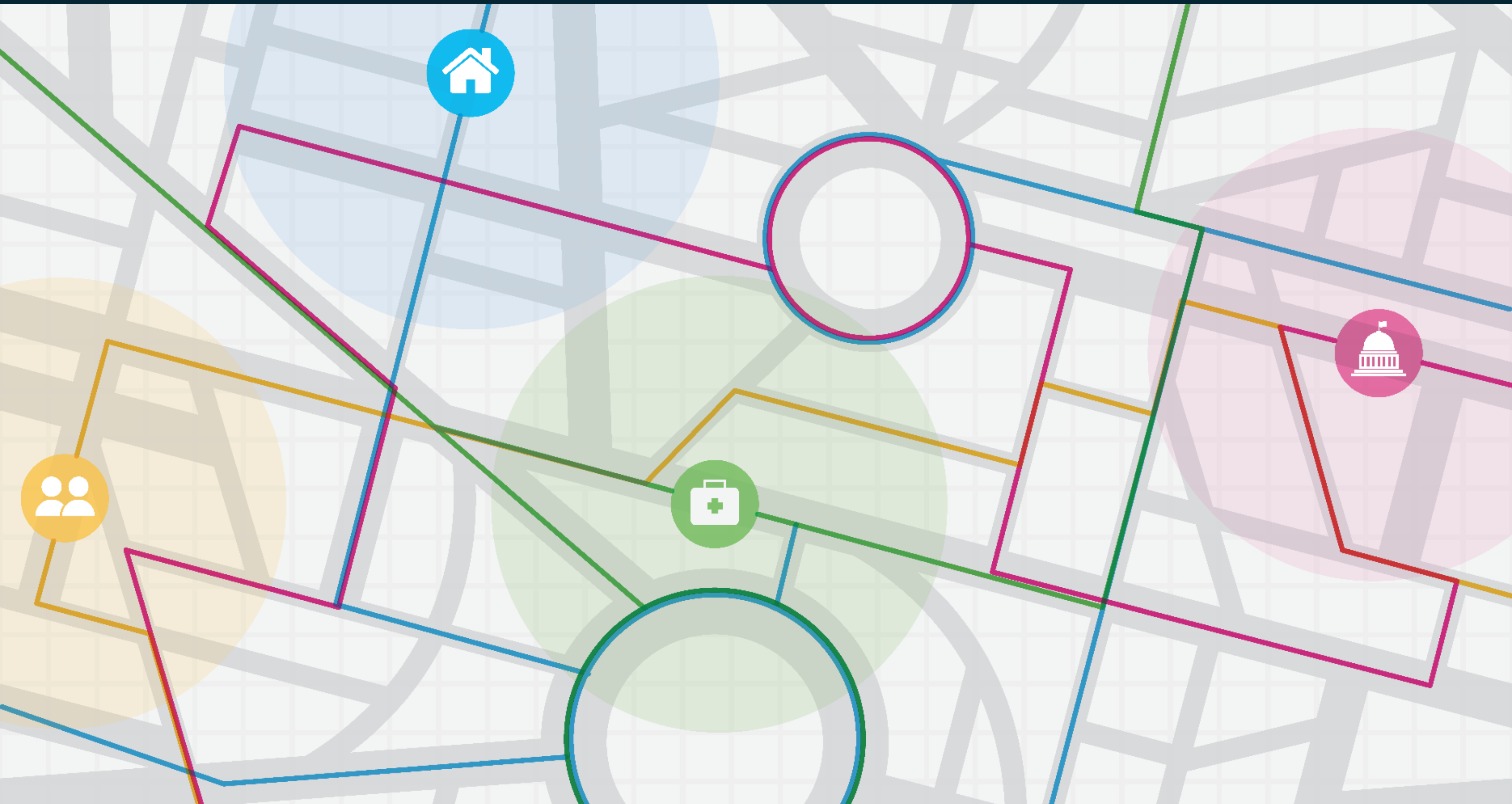

The **Opportunity for All** project is based on a simple premise: every family should live in a neighborhood that supports their well-being and their children's ability to thrive. But today, too many families, particularly families of color, live in neighborhoods that have suffered from decades of disinvestment, have been displaced from neighborhoods that are revitalizing, and are excluded from neighborhoods with opportunity-enhancing amenities. Racist public policies have created and reinforced this uneven landscape, but better policies can instead support fairer and more just access to opportunity. The federal government has a particularly important role because of the scale of its resources and its ability to level the playing field across places.

In this essay series, Urban Institute scholars, community leaders, and national experts are working together to explore how the federal government can help all neighborhoods become places of opportunity and inclusion. Although these essays address multiple policy areas, they all aim to end the systems that tie Americans' chances of success to their race or the place they grow up.

Addressing a national housing crisis—the mismatch between the supply and demand of rental homes for households with modest incomes—requires a comprehensive strategy to produce new affordable units, preserve existing inventory, and protect at-risk residents. Because more affordable units are lost than are produced, preservation must be a higher priority in this strategy. This essay proposes such a robust preservation strategy, including more resources, better tools, innovation, engagement of all relevant actors, and a nationwide network of local and state coordinating bodies dedicated to preserving the maximum number of affordable housing options.

The COVID-19 pandemic has severely disrupted American social and economic life. It has laid bare and exacerbated disparities based on race, income, geography, wealth, and many other factors. At the same time, the brutal killing of George Floyd and other vivid instances of police violence have catapulted the struggle for racial and economic justice to an issue of national concern. There is a moral imperative to use this period of recovery and racial reckoning to lay the foundation for a more equitable and resilient future.[1]

Such a future requires stable housing for everyone in this country. Individuals and families with stable housing are more likely to benefit from opportunities, resources, amenities, and other conditions that promote economic mobility and other positive life outcomes. At the same time, millions of families and their children face limited positive life prospects because of a lack of stable housing or the threat (and reality) of losing their housing. Because affordability and stability go hand in hand, households with modest incomes often struggle to find low-cost housing, and the need for such housing increases dramatically with the job losses and other constraints on income that millions across the country are experiencing right now.

Housing instability is a byproduct of a market where demand for affordable housing exceeds supply, forcing households to pay more than they can afford to stay housed. On top of this mismatch, discriminatory policies and practices limit choice in the market, and each year affordable units are lost from the inventory.[2]

The scale and urgency of the human consequences of a dysfunctional affordable housing market demand heightened attention from policymakers across all levels of government and a commitment to use all tools—existing and new—to **produce** new affordable housing, **preserve** the housing that currently exists, and **protect** at-risk residents from losing their homes. All of these strategies and tools are required because of the variety of market conditions and built environments that exist across under-resourced neighborhoods, revitalizing neighborhoods, and amenity-rich neighborhoods that have traditionally excluded affordable housing. This comprehensive approach is needed for the US to build a stronger, fairer foundation for the future.

The country is losing affordable housing faster than it can be produced. The private market lost 4 million low-cost rental homes between 2011 and 2017, and the low-income housing tax credit (LIHTC), the largest source of support for affordable units, added back only one-fifth that many homes over a comparable period.[3] Compounding this loss, rent restrictions expire on more than 125,000 publicly subsidized rental units each year, putting those units at risk at a pace that is forecast to continue throughout the decade.[4]

This annual net loss of affordable rental housing underscores the essential role of preservation in a comprehensive national strategy.[5] Despite its demonstrated cost efficiency and the stability and access to opportunity that it fosters,[6] preservation is often overlooked and under-resourced, and a significant portion of the nation's housing inventory (whether unsubsidized or "naturally occurring" affordable units), has received scant program or policy attention. Some of these units are in larger, multifamily properties, but many of them are owned by "mom and pop" small businesses that are dipping into savings to pay back investors, banks, and local governments for services to keep rental properties safe and habitable, especially during the COVID-19 economic crisis. Both types of businesses are challenged by reduced revenues as many tenants are unable to pay their rent.

Interdependent policies and the complex nature of the problem and policy levers provide ample impetus for a robust national preservation strategy that includes significantly increasing resources, improving existing tools, incentivizing innovation and new tools, engaging all relevant actors, and creating a nationwide network of local and state coordinating bodies whose members collaborate to preserve the maximum feasible number of affordable housing options.

Existing Tools Are Inadequate and Not Nimble Enough

Housing affordable to people with low incomes consists of naturally occurring affordable housing (NOAH) available in the private market at low rents without subsidy; privately owned, publicly assisted housing; and public housing. Although NOAH is the most common type, governments, mostly through federal programs, also offer subsidies, tax credits, or publicly owned units that reduce rents to levels that households with low or extremely low incomes can afford. But federal rental assistance serves only around one in four low-income households,[7] and state and local government programs do not fill the gap.

Preservation strategies seek to maintain the existing stock of subsidized units and protect currently unsubsidized units from becoming unaffordable. But both efforts are challenging. Subsidized properties face three related risks: exit, depreciation, and appropriations. Exit risk occurs when subsidies or rent restrictions expire and owners of subsidized properties opt out to accept market-rate rents. Depreciation risk occurs when the financial stability and physical quality of subsidized units deteriorate over time, typically from insufficient revenue. Appropriations risk occurs when the amount of public money provided fails to keep pace with recapitalization needs and operating costs.[8]

Preserving the three large groups of unsubsidized properties is even more difficult. The first group includes two- to four-unit properties whose owners often do not have access to the financing needed to reduce operating costs and keep rents affordable.[9] Solutions here can include energy upgrades that reduce operating costs over time, pooled arrangements with other owners that reduce insurance and energy costs, reduced property taxes in exchange for affordable rents or for leases to tenants using rental assistance vouchers, and other interventions that lower operating costs.

The second group of unsubsidized properties are larger Class C multifamily properties, which are older and rent at below-market rates. Because of the pandemic, only 37 percent of renters were able to pay rent at Class C properties in July 2020, making them an increasingly endangered affordable housing resource.[10] These properties would benefit from some of the same solutions applicable to smaller properties, but the main threat to their existence arises when they are sold: many are acquired by new owners that convert them to other uses or upgrade them and raise rents. Acquiring these properties and preserving their affordability requires braiding and blending capital from a variety of local, state, and federal subsidy programs, but such funding mixtures are uncertain and take time to assemble. Mission-oriented buyers are often outbid by private-market actors because the former lack the acquisition capital that enables them to act quickly in a competitive market. New tools and strategies should focus on equipping mission-oriented buyers with enterprise-level capital[11] and on supportive policies that enable such buyers to acquire and rehabilitate these properties. Sound policies, such as the right of first refusal or tenant opportunity to purchase, level the playing field and make it possible for tenants and mission-oriented buyers to quickly match private offers.

The final group of unsubsidized properties consists of scattered-site, single-family rental units (SFRs), which make up nearly 40 percent of all rental housing in the country. Since the Great Recession, SFRs have been the fastest-growing segment of the rental market.[12] They account for half of all urban rental housing and about 28 percent of the market for households in areas of concentrated poverty. Although affordability data for SFRs are scarce, Freddie Mac reports that they are broadly affordable, with about two-thirds of all units accessible to median-income families, and more than half have rents that fall within the US Department of Housing and Urban Development's Small Area Fair Market Rents.[13] The challenge is that financing is not readily available to the small- and midsize investors that operate in these neighborhoods and that tend to address deferred maintenance at the time of acquisition.[14] As one solution, with support from Federal Housing Finance Agency leadership, Freddie Mac could restart a now-terminated pilot program that developed promising new SFR financing products and scaled them up over time. Also, SFR investors could be allowed to tap existing federal multifamily acquisition- and rehabilitation-financing programs, and Community Reinvestment Act credit could be available for banks that finance such activities.

Federal Approaches Are Evolving, but More Resources and Capacity Are Needed

Many preservation tools exist, but they are not funded at a level that meets the nation's need. Federal funding and support for supply-side subsidies has waned in recent decades.[15] Absent increased federal resources and given growing preservation need, state and local resources are increasingly important. However, federal resources should remain the backbone of preservation efforts, especially for units serving extremely low-income households. Increased attention and the political will to secure new resources are required.

Over time, federal programs have transitioned from providing direct public subsidies to leveraging market-based forces that incentivize private actors to build or acquire and operate affordable housing. Recognizing the flaws and challenges in that approach, some advocates are calling for substantial reinvestment in public housing.[16] A significant number of new public housing units for families, which would require a repeal of the Faircloth Amendment, could be an important component of a comprehensive affordable housing strategy. However, a large infusion of public resources into public housing does not address preservation and would produce fewer units than if the resources were deployed in a way that leverages public tools (such as project-based vouchers) and private tools (to finance capital maintenance and repairs).

In the past decade, the federal government has launched programs to recapitalize public housing and encourage mixed-income, mixed-use developments in revitalizing neighborhoods. For example, the US Department of Housing and Urban Development's Rental Assistance Demonstration converts public housing units into privately owned, subsidized housing but retains a public interest through land leases. This ensures long-term affordability while enabling private owners to unlock funding to maintain the quality of these units, facilitating their preservation. But the program is currently capped at 455,000 units, and the need is far greater.[17] Public housing authorities have also become more active partners in preservation by acquiring unsubsidized housing and by extending the allowable term for project-based contracts, which helps nonprofit owners tap into private financing for development and acquisition.[18]

Although the federal government provides much of the resources for preservation, local capacity to execute transactions varies widely. Local government actors must have the information and capacity to proactively engage owners and support their efforts to pull together multiple sources of equity, debt, and subsidy. This capacity often exists outside of government and is not consistently available across the country. Even where local capacity exists, resources are again insufficient to meet the need.[19]

What Would a National Preservation Strategy Look Like?

A national preservation strategy would include resources, strategies and tools to preserve units that are subsidized through public programs, acquire unsubsidized properties to keep them affordable over time, and make it possible for current owners of unsubsidized properties to continue to offer affordable rents.[20]

Significantly increased resources are the first and foundational component of a national preservation strategy. However, increased resources alone do not match the scale and complexity of the challenge.

Increase Resources

Today, funding for preservation is insufficient. Increased resources would help affordable housing providers take advantage of a relatively soft market (created by the pandemic) to make threatened unsubsidized stock permanently affordable.[21] Preservation transactions require equity, low-cost debt, and long-term rental assistance commitments. Doubling the LIHTC allocation—along with a federal set-aside or commitment to preservation—would make a substantial contribution to the equity gap. Increasing HOME block grant funds and channeling more resources to the National Housing Trust Fund would provide the necessary gap funding sources to ensure properties can make capital improvements without increasing rents beyond the reach of their existing residents. Increasing the size of the Capital Magnet Fund would enable Community Development Financial Institutions and qualified nonprofit housing organizations to accelerate and scale preservation strategies at the local level. Both funds are currently capitalized by government-sponsored enterprises through a modest affordable housing assessment at no cost to the federal government; this may be difficult to raise because it is effectively a tax on homebuyers. An alternative could be to supplement these resources through direct appropriations. Lastly, new authorization of project-based rental assistance is needed to ensure that the lowest-income Americans with the most severe rent burdens can benefit from lower housing costs. Another potential source of funds are green retrofits that, although ostensibly part of climate change mitigation strategies, could provide capital for preservation and reduced operating costs for existing housing.

How would this capital be deployed? One strategy could be to create a vehicle similar to the Neighborhood Stabilization Program. Needs-based formula funding would flow to state housing finance agencies. Criteria could include a state's share of rent-burdened households, share of renters of color who missed payments in the previous month, unemployment rates, and other indicators of distress.[22] Funding would enable neighborhood real estate investment trusts or mission-driven owners to acquire existing properties from owners facing immediate distress or the potential of distress because of the COVID-19 economic crisis.[23] Where possible, decisions on which properties to acquire or preserve with these funds would be made by local or state preservation coordinating bodies (discussed further in the next section).

Reform Existing Tools

Some preservation tools work but could be more effective. Allowing Ginnie Mae to securitize housing finance agency multifamily loans originated through the Federal Housing Agency – Housing Finance Agency Multifamily Risk-Sharing Program would provide housing finance agencies with the low-cost capital they need to increase the number of affordable mortgages and rental units in the communities they serve. Doing this also would reduce housing finance agencies' borrowing costs.[24]

Reforming an expanded LIHTC allocation formula or the 4 percent tax credit to align more closely to affordability gaps in high-cost markets would benefit households with between 80 and 120 percent of area median income who are priced out of the rental market. Moving asset management from a project-based to a portfolio-based approach could enable the federal government to enhance the capacity of mission-driven owners to steward affordable properties for the long term and be better partners at the local level. This could include allowing subsidy contracts to be moved within a portfolio of projects at no additional federal cost to better serve residents and the community as their needs and market dynamics change over time. For example, the US Department of Housing and Urban Development (HUD) could make greater and better use of an existing provision that permits a multifamily property owner seeking to terminate a project-based Section 8 subsidy contract to transfer it to another project.[25] Properties in neighborhoods with access to transportation, high-quality schools, or other amenities could be prioritized for subsidy contract transfer. Finally, additional resources could be channeled to intermediaries that would support mission-driven developers and their local partners in their efforts to move quickly in competitive markets and preserve affordability at scale.

Unlock Innovation

A comprehensive strategy would promote more innovation across levels of government as a way to address segments of the market that are not currently well served. More than half of the affordable rental housing in the US is provided without subsidy in the private market.[26] Local communities and mission-driven actors have been experimenting with different approaches to preserving NOAH properties, but the federal government does not have an active strategy for aligning federal tools to preserve these properties for the long term. In the current economic crisis, when so many renters and rental properties are at risk, stabilizing this housing is especially urgent. The federal government could create a competition to incentivize NOAH preservation by providing equity resources to enable mission-driven actors (such as real estate investment trusts) to acquire properties at risk of loss. In exchange for equity investments, mission-driven owners or associated intermediaries would commit to longer-term affordability restrictions and enhanced energy efficiency upgrades. Financial regulators could promote innovation in the financing available to the significant number of two- to four-unit properties typically owned by individuals who often occupy one of the units.

Mobilize Relevant Actors

Through their duty-to-serve obligation, the GSEs Fannie Mae and Freddie Mac could align their activities in support of a comprehensive effort to facilitate preservation across the country, including offering more preservation financing for owners of small multifamily NOAH properties. Assuming an expanded LIHTC allocation, state HFAs could also create set-asides for preservation in their qualified allocation plans. More public housing authorities could acquire NOAH properties and use project-based vouchers to create longer-term affordability.

Create a Nationwide Network of Local and State Coordinating Bodies

Affordable housing preservation actors, strategies, data, and tools are decentralized and disconnected, which constrains efforts to preserve current affordable housing options and deploy future resources in the most strategic, effective, and efficient way. Through HUD, the federal government could support the creation or maintenance of standing local or state preservation coordinating bodies that would bring together representatives of the local, state, and federal governments; data partners; lenders; landlords; public housing authorities; and tenant advocates. Using real-time data and information, they would be able to marshal local owners and developers, government resources, and other sources of capital to respond to time-sensitive preservation challenges and opportunities that reflect local neighborhoods' distinctive mix of property types and market conditions. These coordinating bodies would assure a continuing focus on preservation within an overall affordable housing strategy; consider and adopt proven preservation policies and practices; use data to understand trends and market conditions and to identify opportunities for action; and increase the likelihood that the local jurisdiction or state is able to preserve the maximum feasible number of affordable housing options. A pool of federal funds could be made available through a set-aside in formula Community Development Block Grant or HOME funding to support local data and organizational capacities.

Effective local examples such as the Preservation Compact in Cook County, Illinois, and the DC Housing Preservation Strike Force demonstrate what is possible when cross-sector actors come together to follow market trends; identify pressing problems and opportunities; collaborate around legislative, policy, and programmatic solutions; and implement strategies on the ground.

Challenges and Barriers to Success

The biggest challenge to this proposal is that success requires a large increase in dedicated resources for preservation. Assuming increased resources, preservation strategies still rely significantly on the private market for leverage. The economic crisis limits state and local funding for affordable housing, and the uncertainty of the real estate markets reduces the private market's willingness to invest. In addition, a precipitous decline in renter incomes, which is affecting individual and family well-being as well as the financial stability of properties, could also create long-term demand that even the most effective local coordination and planning cannot address. This could set off a cascade of effects, including the possibility that many smaller NOAH properties could be foreclosed on or sold to owners that may not prioritize preservation and long-term affordability.

Increased resources are the most critical component of a comprehensive national plan; making it possible for affordable housing owners to move quickly in a competitive market is another. It takes time to assemble the layered capital required for affordable housing. Even with increased resources and enhanced local capacity, affordable housing developers can be outbid by private equity firms and other entities.[27] In this current economic environment, some owners may retire or move to another industry segment, reducing both units and local capacity to develop, preserve, and maintain affordable housing.

Another challenge is that a comprehensive strategy may not be implemented evenly across and within jurisdictions. But even in places with higher capacity, preservation is especially hard in opportunity-rich neighborhoods, where market costs are higher and there is greater resistance from residents and public officials.

Next Steps

Stable, affordable housing for all and the opportunity that housing provides for economic mobility and other positive life outcomes are essential elements of the more equitable and resilient future this moment in American history demands. A federal administration could make significant progress toward that goal with a comprehensive national affordable rental housing strategy focusing on the production of new housing, preservation of existing affordable options, and protection of at-risk residents from loss of their homes. As a priority of the Domestic Policy Council, a multiagency analysis and coordinating council comprising the Departments of Housing and Urban Development, Agriculture, and Treasury and the Federal Housing Finance Agency, would set targets for, design, and advance a programmatic and legislative strategy. This essay asserts a rationale for and envisions elements of the preservation component of that strategy and urges council members to look to and learn from successful and innovative local and state preservation models and to foster their spread across the country.

Notes

[1] Solomon Greene, Margery Austin Turner, and Chantel Rush, "Creating Places of Opportunity for All" (Washington, DC: Urban Institute, 2020), https://www.urban.org/research/publication/creating-places-opportunity-all.

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[3] "The State of the Nation's Housing 2019," Joint Center for Housing Studies of Harvard University, accessed September 4, 2020, https://www.jchs.harvard.edu/state-nations-housing-2019.

[4] "Issue Background: Affordable Rental Housing Preservation," Enterprise Community Partners, accessed September 4, 2020, https://www.enterprisecommunity.org/policy-and-advocacy/issues/affordable-housing/preservation.

[5] We define preservation as retaining and expanding the current stock of subsidized or naturally occurring affordable housing and protecting its affordability for existing and future tenants.

[6] "What is Preservation?" National Housing Trust, accessed September 4, 2020, https://www.nationalhousingtrust.org/what-preservation.

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[11] In contrast to project-specific capital, enterprise-level capital provides nonprofit developers with flexible resources that allow them to build capacity and act more nimbly to acquire properties. See also Debra Schwartz, "Making an Impact at the Enterprise Level," MacArthur Foundation Perspectives, January 9, 2020, https://www.macfound.org/press/perspectives/making-impact-enterprise-level/.

[12] "Freddie Mac: Single-Family Rental Homes Are America's Largest Source of Rental Housing," press release, Freddie Mac, December 27, 2018, https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-single-family-rental-homes-are-americas-largest.

[13] "Freddie Mac: Single-Family Rental Homes Are America's Largest Source of Rental Housing," Freddie Mac, 2018, https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-single-family-rental-homes-are-americas-largest.

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[17] 82 Fed. Reg. 162, (Aug. 23, 2017), https://www.govinfo.gov/content/pkg/FR-2017-08-23/pdf/2017-17857.pdf.

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[19] Pamela Blumenthal and Reed Jordan, "The Cost of Affordable Housing: Does It Pencil Out?" Urban Institute, July 2016, https://apps.urban.org/features/cost-of-affordable-housing/.

[20] A bold housing reform is currently being discussed that some say would diminish or eliminate the need for preservation. That reform would make rental assistance universally available to all income-eligible households. Benefits would flow to tenants in the form of reduced rental expense, which would increase nonhousing consumption, but the reform could also have a distorting effect on the marketplace, and the impact on tenant and landlord behavior is hard to predict. The political challenges are significant and, even if successful, implementation would take time, all of which reinforces the urgency to prevent the loss of affordable housing, especially in a period of growing housing instability.

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