Concerns about the supply of rental housing affordable to lower-income households have become especially acute during the past decade, as stagnant wages for many Americans coupled with a recession have increased demand for affordable rental units even as factors like gentrification, loss of units through deterioration, and loss of subsidies have decreased supply. Though new construction is one response to this mismatch, it has not kept up with demand—or even with the loss in existing affordable-housing stock. This disparity alone illustrates the importance of preserving current affordable housing. Preservation also carries with it a number of benefits: it’s generally less expensive than new construction (about one-half to two-thirds as much), it lets people stay in their homes, and it is already integrated into land-use patterns (HUD 2013).

The Challenges of Providing Affordable Housing

Between 2001 and 2013 the United States lost 2.4 million affordable rental housing units (nonmarket units—either subsidized or with no cash rents—and those affordable to households earning up to 50 percent of the area median income). Despite some growth since 2009, the share of rental units that is affordable dropped from nearly 60 percent in 2001 to 43 percent in 2013 (Eggers and Moumen 2016). Since some units affordable to low-income households are already occupied by higher-income households, the actual mismatch is even greater: in 2014 there were 57 units affordable and available for every 100 very low income households (those with incomes at or below 50 percent of the area median) and only 31 units affordable and available for every 100 extremely low-income households (those with incomes at or below 30 percent of the area median; see JCHS 2016; NLIHC 2015).

The loss of affordable housing is particularly acute in strong housing markets. In New York City alone, the number of unsubsidized units affordable to low-income households dropped by 330,000
between 2002 and 2014 (Yager 2015). But affordable housing can also be lost in weaker housing markets, where neglect and deterioration threaten affordable units.

However, the issue is not simply one of supply and demand, with demand outstripping supply: the policy environment around affordable housing provision plays a role. Federal subsidies have been flat or declining: between 2004 and 2014 the numbers of funded housing vouchers increased from 2.1 to 2.2 million, but that increase was more than offset by a loss of 106,000 public housing units and 146,000 project-based rental assistance (PBRA) units (JCHS 2015). PBRA units are subsidized through government contracts with private owners; as contracts expire, owners may decide to convert them to market-rate rentals or condominium units. According to one recent analysis, approximately 400,000 units (or one in three) are at risk of losing their affordability status because of expiring contracts, with another 50,000 at risk due to poor physical condition. Further, if subsidies for one property are allowed to expire, they cannot be transferred to another and are lost.

At the intersection of new construction and preservation is the Low Income Housing Tax Credit (LIHTC) program, now the largest federal source of new affordable rental housing creation. In recent years it has supported about 76,000 affordable units annually, with approximately half going to new construction and half going to rehabilitation of existing developments (JCHS 2015). However, because LIHTC subsidies are targeted to families earning 50 or 60 percent of the area median income, additional subsidies are required to support families with the lowest incomes. Additionally, rent restrictions expire on LIHTC units, as they do on PBRA units: LIHTC units make up 60 percent of the 2.2 million privately owned, publicly subsidized units with contracts or rent restrictions expiring between 2015 and 2025 (JCHS 2015).

Preserving Affordable Housing: What Works

Economic factors and demographic trends, coupled with a complex policy and funding environment, mean that affordable housing preservation faces significant headwinds. As such, lessons can be learned from digging into actual cases where housing affordability has been preserved. Here we present findings based on six case studies that reflect varied housing market types, policy contexts, and development types (table 1 and the individual fact sheets describe these cases in more detail). While these cases represent a diversity of stakeholders, residents, local policy environments, and economic contexts, they present a number of important lessons for other efforts to preserve affordable housing. We highlight five:

- **local and state resources** to match federal funds;
- **developer capacity** to coordinate multiple funding streams and put together complex deals;
- **collaborative relationships** between buyers and sellers;
- **local policy context** that allows for innovations in the field; and
- **Policy networks** that allow for transfer of knowledge, techniques, and interventions from one place to another.

**Local and State Resources**

Federal subsidies may be necessary for an affordable housing project, but they are often insufficient. Billings Forge, the Monseñor Romero Apartments, Putnam Square, and Seward Towers use LIHTC funding, and Billings Forge, Putnam Square, and Seward Towers involve PBRA funding. In these cases, federal subsidies helped carry along existing affordability but needed to be joined with other funding streams, including grants and loans, to make the project initiatives viable:

- The District of Columbia’s Neighborhood Investment Fund, capitalized by a contribution from the personal property tax, funded predevelopment grants for the Monseñor Romero Apartments, while an acquisition loan from the District’s Department of Housing and Community Development provided funds for acquisition and predevelopment costs through a revolving loan fund.

- For Putnam Square, the state Community Economic Development Assistance Corporation provided acquisition and predevelopment funding, and the City of Cambridge and the Cambridge Affordable Housing Trust provided bridge and permanent financing, leveraging $21 million in funds from other sources.

- For Billings Forge, Connecticut’s Competitive Housing Assistance for Multifamily Properties (CHAMP) program, administered by the state’s Department of Housing and the Connecticut Housing Finance Authority, provided $5 million in project support (CHFA 2014). A payment-in-lieu-of taxes (PILOT) agreement with the City of Hartford recognized the special needs of a project focused on maintaining affordability while undergoing rehabilitation.

- For Seward Towers, the City of Minneapolis, Hennepin County, and the Metropolitan Council provided local funding, while the state provided assistance through its Home Affordable Refinance Program (HARP).
TABLE 1
Affordable Housing Preservation Case Studies

<table>
<thead>
<tr>
<th>Location</th>
<th>Geographic context</th>
<th>Number of units</th>
<th>Preservation strategy</th>
<th>Owner type</th>
<th>Special features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Putnam Square Apartments</td>
<td>Urban</td>
<td>94</td>
<td>40T acquisition with moderate rehab; subsidy contract renewal</td>
<td>Nonprofit organization</td>
<td>Green building; resident services</td>
</tr>
<tr>
<td>Billings Forge Apartments</td>
<td>Suburban</td>
<td>112</td>
<td>Acquisition and substantial rehab</td>
<td>Nonprofit organization</td>
<td>Mixed-income; mixed-use; historic preservation; resident services</td>
</tr>
<tr>
<td>Monseñor Romero Apartments</td>
<td>Urban</td>
<td>67</td>
<td>Tenant purchase</td>
<td>Nonprofit organization</td>
<td>Green building; historic preservation</td>
</tr>
<tr>
<td>4657 W. Madison St.</td>
<td>Urban</td>
<td>10</td>
<td>Acquisition and substantial rehab</td>
<td>Private individual</td>
<td>Mixed-use</td>
</tr>
<tr>
<td>Seward Towers</td>
<td>Urban</td>
<td>640</td>
<td>Subsidy contract renewal; refinancing</td>
<td>Nonprofit organization</td>
<td>Mixed-income</td>
</tr>
<tr>
<td>Vida Lea Cooperative</td>
<td>Rural</td>
<td>33</td>
<td>Tenant purchase</td>
<td>Resident cooperative</td>
<td>Resident ownership</td>
</tr>
</tbody>
</table>

Sources: May 2016 survey of Preservation Working Group members regarding exemplary cases of affordable housing preservation and follow-up calls with sites.

Developer Capacity

Another lesson from these case studies is developer capacity: the bigger a project, the more sophisticated the methods needed—and partners involved—to make it successful. This lesson is obviously the case in expensive markets where preservation projects face high levels of competition, but it’s also applicable in less robust markets, where private capital may be less interested in participating. Other project features, such as historic buildings or completing work that accounts for the needs of special populations (such as elderly residents), can also add complexity to a project.

Simply coordinating multiple funding streams and multiple stakeholders is a challenge. As one example, funding for Putnam Square involved:

- Boston Private Bank and Trust, Co.;
- Cambridge Housing Authority;
- Cambridge Neighborhood Apartment Housing Services;
- Cambridge Savings Bank;
- City of Cambridge;
- Community Economic Development Assistance Corporation;
- Massachusetts Housing Equity Fund, Inc.;
- MassDevelopment;
At other times, speed is of the essence. In competitive housing markets, sellers can choose between buyers, and because proposals to preserve affordability often require putting multiple funding streams together, they tend to take more time than do simpler bids. This is an issue even with a mission-driven seller, like at Billings Forge. There the Melville Charitable Trust wanted a quick closing so it could obtain resources for its core program work, and Preservation of Affordable Housing worked with them through the process, structuring a two-part payment financing that provided funds up front in response to Melville’s needs.

Finally, sophisticated nonprofit developers can address a market failure where private capital cannot be attracted. This is the case with Community Investment Corporation in Chicago, a community development financial institution that specializes in lending, acquisition, and rehabilitation of smaller buildings in low- to moderate-income neighborhoods. Chicago’s Austin neighborhood, where 4657 West Madison is located, has had difficulty attracting private capital for decades. Activists in Austin were at the forefront of efforts during the 1970s to implement the Community Reinvestment Act, which intended to bring private capital and financing back into disinvested communities. The ongoing need for innovative organizations like Community Investment Corporation in neighborhoods like Austin reflects the continuing challenges in attracting resources.

Collaborative Relationships

Successful preservation deals often involve having buyers and sellers on the same page: having a mission-oriented seller motivated to retain affordable housing and other community features is a good start, but setting up mechanisms to ensure preservation is maintained and the community benefits is also important. Among these case studies, Billings Forge (the Melville Charitable Trust working with Preservation of Affordable Housing) and Putnam Square (Harvard University working with Homeowner’s Rehab, Inc.) are the clearest examples of collaborative relationships at work.

Putnam Square and Billings Forge both had mission-driven sellers not only interested in preserving affordable housing but also desirous of a continued relationship with the property. In Putnam Square, Harvard University sold the property, but currently helps fund a resident services program there. In Billings Forge, Melville continues to be involved in the job training and economic opportunity initiatives; letting Preservation of Affordable Housing manage the property has allowed Melville to focus its attention on the services offered on site.

In some ways these cases are best-case scenarios because they involve sellers who see the value of preserving affordable housing and are willing to work with buyers to make that happen. But they also represent additional, ongoing stakeholder involvement that can complicate buy-in, processes, and
decisionmaking. As such, instituting a process and communications pathways is just as important in these cases as elsewhere.

Local Policy Context

These case studies illustrate the importance of policy context. Though funding mechanisms play a central role, policies can also provide frameworks that aid preservation. Three of these cases benefited from policies assisting affordable housing preservation efforts:

- Massachusetts’s 40T expiring use preservation law, covering housing assisted by specific federal and state programs, requires notice to affected parties when affordability restrictions are coming to a close; protects against displacement of current residents; and gives the state Department of Housing and Community Development an opportunity to make or match purchase offers when subsidized properties are up for sale.

- Oregon’s "Opportunity to Purchase" requires owners of manufactured-housing developments to notify residents if they intend to sell; it also requires sellers to negotiate in good faith if residents are interested in purchasing the property. Also crucial is the legislation that legalized manufactured-housing resident cooperatives: without that, the conversion of Vida Lea would never have happened.

- The District of Columbia's Tenant Opportunity to Purchase Act requires that owners planning to sell their properties provide tenants the opportunity to purchase their residences. If interested, tenants have a set time to secure financing and to negotiate a sale; tenants can also assign their rights to purchase to a third party, as was the case with the Monseñor Romero Apartments.

Policy Networks

A final lesson is the importance of pathways for communicating models, successes, and challenges to interested parties locally and throughout the country. For affordable housing preservation, this can involve everything from structuring financing, creating grant or loan funds, or building policy frameworks to promote preservation efforts. A prime example is the resident-owned communities model for manufactured housing: started in New Hampshire in 1984, it has grown to a network of partners in 14 states since ROC USA was founded in 2008 to expand the model.4

The National Preservation Working Group, coordinated through the National Housing Trust,5 is a coalition of affordable-housing advocates, developers, and other stakeholders advocating federally for more effective preservation policies. By bringing together interested parties from across the United States, it also offers a mechanism to share information and updates in the field. Working group members helped identify the case studies used here.
Local networks help bring people together as well. Founded in 2007, the Preservation Compact brings together stakeholders in the Chicago region involved in efforts to preserve affordable multifamily rental housing. The Community Investment Corporation coordinates the compact.

Finally, philanthropy can encourage local and national networks. For example, the MacArthur Foundation (which funds the Preservation Compact) has also sponsored the Window of Opportunity effort, which provides grants and other tools for affordable housing efforts and for creating a policy framework that encourages affordable housing preservation. A recent evaluation of Window of Opportunity finds that it has been most successful in increasing the capacity of nonprofit owners, resources for preservation efforts, and the number of groups involved in preservation; moderately successful in building new preservation financing structures and policy frameworks; and less successful in creating new federal incentives or meeting its initial numerical targets (Schwartz et al. 2016).

Preserving Housing: Lessons Learned

The frameworks within which affordable preservation efforts take place are crucial to making them a success. Also important is the content of preservation efforts: once partners are gathered and funding is secured, what actually happens? Here we focus on three: limiting and mitigating the effects of displacement on residents, seeking community input and resident engagement, and preserving and extending resident services.

Limiting Resident Displacement

The case studies highlighted in this project are broad efforts to prevent displacement, but the logistics of rehabilitation projects present challenges for short-term displacement as well. In reality, preservation efforts often involve buildings that are several decades old, have deferred maintenance needs, and are not up to current standards (such as ADA compliance or toxic building materials). For any development, basic questions involve the logistics and costs of rehabilitation-in-place, or if residents need to be temporarily displaced from units undergoing work. If the latter, where will those residents be housed and how they will be moved?

In some cases, displacement is a moot point. For example, residents of Monseñor Romero Apartments in Washington, DC, were already displaced by a fire in 2008, so the question was how to manage a complete rebuilding and keep former residents linked to the process and the return. For 4657 Madison in Chicago, “preservation” referred to the physical preservation of a building that had been vacant for 20 years and was at risk of being lost entirely as an affordable-housing resource.

In the other case studies here, rehabilitation minimized displacement as much as possible. For instance, Seward Towers incorporated occupied rehabilitation and temporary relocation to “hotel” units into its financing package and rehabilitation effort. At Putnam Square, Homeowner’s Rehab, Inc., engaged in occupied-property rehabilitation that included boiler replacement, new windows, envelope repairs, and accessibility improvements for the building’s physically disabled and impaired residents. At
Billings Forge, rehabilitation efforts involved unit and building replacements, and renovations to the main mill building to comply with local historic preservation requirements. To minimize disruption, renovations were generally conducted in occupied units, however a few cases required on-site relocation.

**Engaging Residents**

Resident involvement is a key feature in these projects, whether bringing residents in as full partners in an agreement, involving them in some other way, or even keeping them informed about the work. It helps ease concerns about issues like displacement and helps tailor investments and services to the needs of residents. For Monseñor Romero and Vida Lea, residents were crucial to the decisionmaking process, and in both cases legislation provided them an official means to directly negotiate with the seller. At Seward Towers, CommonBond Communities worked closely with residents throughout the rehabilitation project on the relocation process and scope of needed work.

**Preserving and Extending Services**

Developers invested in affordable housing preservation projects do not see affordable housing as simply the bricks and mortar of a building, but as a broader response to the residents’ needs. For many populations served by affordable housing, programs and services are core: whether services offered to the elderly residents of Putnam Square or job training and educational services offered at Billings Forge and Seward Towers. Here again, strong partners are often necessary: as noted above, services at Billings Forge and Putnam Square continue with the assistance of the previous owners, both of whom remain involved in the properties.

**Future Pathways and Challenges**

Preserving affordable housing cannot simply be a one-time initiative. One big lesson that should have been learned from the perceived and real failures of public housing was that initial funds for construction were not enough to ensure stable, secure, and solvent developments in the long term. Buildings get old. Contracts and rent restrictions expire. Residents and community needs change. Funding for renovations and repair, services, and other features need to come from somewhere. Tax credits and the like can help, but the reality is that affordable housing can be lost for a number of reasons. Preservation requires the continuing efforts of those in the affordable-housing field to obtain funding and respond to ever-changing local contexts.

Places change over time: a distressed community with low housing values in the 1970s may face completely different issues in the 2010s, and face other yet-other issues in the 2040s. Long-term preservation requires affordable-housing preservers and government actors to be nimble and responsive to new challenges as they come up. The local affordability “ecology” at a given time may suit the needs of a community, but if that ecology changes without a commensurate response, then efforts to effectively preserve affordable housing will fail. As such, communication between those in the
industry—aided by efforts like the Preservation Working Group—is crucial so people can share stories, successes, and failures.
Notes


2. Although a federal resource, LIHTC funding is allocated through state Qualified Action Plans, by which states establish preferences.


References


About the Authors

Mark Treskon is a research associate in the Metropolitan Housing and Communities Policy Center at the Urban Institute, where he is involved with research on affordable and subsidized housing programs and policies, regional demographic and economic change, and financial interventions for low-income consumers.

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VIDA LEA MOBILE ESTATES, OREGON:

Anatomy of a Preservation Deal

Mark Treskon and Sara McTarnaghan
August 2016

Aided by recent state legislation, a nonprofit helps preserve affordable manufactured housing in rural Oregon by organizing resident owned-cooperatives.

Residents of manufactured housing or “mobile home” parks typically own their homes but not the land they sit on. When the owner of the 33-space Vida Lea Mobile Estates, a manufactured-housing park for senior citizens in Leaburg, Oregon, wanted to sell the property, residents used a resident-owned community, or ROC, to preserve this affordable housing resource. A new hybrid homeownership and rental model, a ROC lets residents purchase and control their park, managing infrastructure, operations, and common areas. Members own their homes and rent empty spaces to generate revenue that covers debt service and operating expenses.

With financing and assistance from Community And Shelter Assistance Corporation (CASA of Oregon), the Network for Oregon Affordable Housing (NOAH), Oregon Housing and Community Services, the Community Development Law Center, and the

Eugene Water and Electric Board, residents formed the Vida Lea Community Cooperative, negotiated with the owner to buy the park, converted the park to a resident-owned community, and oversaw $275,000 of improvements and repairs to the septic system, driveways, drainage, laundry and storage facilities, and the community space.

ABOUT CASA OF OREGON

CASA of Oregon was founded in 1988 to respond to the housing needs of the state’s farmworkers and families. A community development financial institution (CDFI), CASA of Oregon works with community organizations and housing sponsors to develop housing and neighborhood facilities and to promote financial well-being through individual development accounts. It has been involved in preserving manufactured housing since 2006 and is a certified technical assistance provider for ROC USA.

Road pavement was one of several infrastructure improvements at the Vida Lea Community Cooperative. Photo / CASA of Oregon.
FINANCING THE CONVERSION

Financing for Vida Lea primarily came from a first-position loan of $700,000 from NOAH, a $435,000 second-position loan from CASA of Oregon, and a $600,000 grant from the Oregon Housing Community Services, the state’s housing finance agency. In addition, the State of Oregon carved out a section of tax credits for manufactured housing from the general housing fund, and the seller was eligible for a state capital gains tax exemption from the sale.

INNOVATIONS IN AFFORDABLE HOUSING PRESERVATION

Manufactured housing makes up some of the largest stock of unsubsidized affordable housing in Oregon, but high demand and low supply, especially in rural areas, threaten to raise costs. The ROC cooperative model stabilizes these communities for the long term and helps residents decide on actions and control costs. Because residents own their own homes, a ROC is cheaper to develop than traditional multifamily affordable projects.

State legislative reforms were crucial to the conversion of Vida Lea to a ROC. Legislation in 2007, 2009, and 2014 approved the formation of nonprofit manufactured-housing resident cooperatives and established “opportunity to purchase,” a requirement for owners to notify residents when they intend to list their park for sale and negotiate in good faith if residents are interested in buying the park. CASA of Oregon lent its technical expertise to the crafting of this legislation, which is a mechanism for preserving manufactured-housing parks. Other fiscal and policy tools, such as state capital gains tax exemptions available to those selling to co-ops and nonprofits, encourage owners to engage with these efforts.

BUILDING A NETWORK FOR RESIDENT OWNED COMMUNITIES

ROC USA was founded in 2008 to spread the lessons and methods of a successful resident ownership program developed in New Hampshire, where the New Hampshire Community Loan Fund had been providing technical assistance and predevelopment and purchase loans to manufactured-housing homeowners to form cooperatives. CASA of Oregon is one of eight certified ROC USA technical assistance providers who provide technical, training, and networking support to resident corporations throughout purchase and conversion. Over the past eight years, the ROC network has overseen the transformation of manufactured-housing parks in 14 states covering more than 10,000 homes. ROC USA also has a subsidiary, ROC USA Capital, that provides gap funding for purchase of manufactured-housing communities.

RESIDENT-OWNED COMMUNITY (ROC) MODEL:

Residents own homes and share responsibility for park operations and governance through a cooperative model.

- Resident
- Resident
- Resident
- Resident

Cooperative

- Operations
  - Debt service
  - Maintenance
  - Operations

- Governance & Ownership
  - Space rents/fees
  - Park rules

One in a series that examines the challenges and opportunities to preserve affordable housing in various contexts across the United States. For more, see “Anatomy of a Preservation Deal”: http://www.urban.org/preservation
Putnam Square Apartments in Cambridge, Massachusetts, is a 94-unit, 12-story rental property for elderly and disabled residents, subsidized through an ongoing project-based Section 8 contract with the Cambridge Housing Authority. Harvard University, the previous owner, sold the property using the framework provided by Massachusetts’s 2009 40T statute to Homeowner’s Rehab, Inc. (HRI). HRI significantly rehabilitated the occupied property, putting in a new boiler and new windows, making envelope repairs, and undertaking other enhancements to improve the property’s livability and accessibility to physically disabled or impaired residents.

Putnam Square Apartments in Cambridge, Massachusetts, is a 94-unit, 12-story rental property for elderly and disabled residents, subsidized through an ongoing project-based Section 8 contract with the Cambridge Housing Authority. Harvard University, the previous owner, sold the property using the framework provided by Massachusetts’s 2009 40T statute to Homeowner’s Rehab, Inc. (HRI). HRI significantly rehabilitated the occupied property, putting in a new boiler and new windows, making envelope repairs, and undertaking other enhancements to improve the property’s livability and accessibility to physically disabled or impaired residents.

Innovative state legislation enables a nonprofit housing developer to buy and rehabilitate a subsidized building, home to elderly and disabled residents in Cambridge.

ABOUT HOMEOWNER’S REHAB, INC.
Founded in 1972, Homeowner’s Rehab, Inc., is a nonprofit organization with a mission of providing safe, affordable, decent, and sustainable housing in Cambridge, Massachusetts. Most of HRI’s properties are rental units affordable to low- and moderate-income households. To date, HRI has developed more than 1,500 housing units, operates over 1,200 apartments, and owns commercial space in Cambridge. It also operates the Home Improvement Program (HIP), which provides low-interest home improvement loans and technical assistance to homeowners, and is closely affiliated with Cambridge Neighborhood Apartment Housing Services (CNAHS), a nonprofit that develops new affordable housing and maintains affordable housing by providing below-market loans to multifamily owners, keeping their units affordable.

Entrance to Putnam Square apartments after acquisition and rehabilitation. Photo / Homeowner’s Rehab, Inc.
BRIDGING PROJECT-BASED SECTION 8 FUNDING WITH ADDITIONAL RESOURCES FOR REHABILITATION

Financing for Putnam Square involved a number of streams. The City of Cambridge and Community Economic Development Assistance Corporation provided funds for acquisition and predevelopment funding, and multiple partners—such as Cambridge Affordable Housing Trust, Cambridge Department of Housing and Community Development, Boston Private Bank and Trust, Co. Cambridge Savings Bank, Cambridge Neighborhood Apartment Housing Services, MA Department of Housing and Community Development, MassDevelopment, MassHousing, MA Housing Equity Fund Inc., and NeighborWorks America—provided other necessary funds. Also noteworthy is the underlying use of a project-based Section 8 voucher contract to keep the units affordable.

INNOVATIONS IN AFFORDABLE HOUSING PRESERVATION

Through use of Massachusetts’s 40T regulation and a sale to a high-capacity local nonprofit housing developer, Putnam Square Apartments illustrate how affordable housing can be preserved and rehabilitated, and services better-tailored to resident needs, in a high-cost city. The continuing interest from Harvard University in preserving affordability and contributing to resident services highlights the value of collaboration between mission-oriented buyers and sellers in preservation deals. Today at Putnam Square Somerville, Cambridge Elder Services is contracted to provide expanded services to residents, including meal delivery, transportation, and mental health services. Fitness classes, healthy eating, gardening, and other activities have also been added.

POLICY TOOL: 40T, MA’S RIGHT OF FIRST REFUSAL LAW

A central tool of the Putnam Square project was Massachusetts’s 40T statute, passed in 2009. 40T stipulates that owners of publicly assisted affordable housing properties must notify public officials, public agencies, and tenant organizations of their right to sell, give DHCD or its designee 90 days to make a first offer to purchase, and permit DHCD or its designee a right of first refusal to purchase a property on terms agreed between an owner and a third party. By providing a right of first refusal to the state and penalizing owners not adhering to the process, 40T has effectively and efficiently preserved affordable housing in Massachusetts, where significant numbers of contracts for affordable housing developments built in the 1960s and 1970s are now expiring.

One in a series that examines the challenges and opportunities to preserve affordable housing in various contexts across the United States. For more, see “Anatomy of a Preservation Deal”: http://www.urban.org/preservation
A CDFI connects with local buyers to bring a long-vacant building back into the housing stock in a Chicago neighborhood where traditional lenders have shied away from investing.

For the Austin neighborhood in Chicago, Illinois, the vacant building at 4657 West Madison presented an opportunity to preserve a mixed-use structure for affordable housing and commercial space. However, it also presented a challenge: traditional lenders have often been unwilling to underwrite loans and invest in residential and commercial buildings in the neighborhood. This is particularly telling in Austin, because during the 1970s, community activists concerned about the lack of private investment were central to efforts to pass the Community Reinvestment Act, designed to respond to these challenges. Today, given the shortage of traditional lenders, Community Investment Corporation (CIC), a well-known community development financial institution (CDFI) in the Chicago area, has made lending for acquisition and rehabilitation of smaller buildings in low- to moderate-income areas its core business.

4657 West Madison is an example of preservation of privately owned unsubsidized rental or “naturally occurring affordable” housing. The three-story building had sat vacant for 20 years before being purchased in 2008. The new owner was partway through the rehabilitation but was foreclosed upon in 2012 after falling into default. At this time, a new local buyer became interested in the property. While the buyer’s bank would not provide financing, the bank referred the buyer to CIC, who did. Since then, the owner has completely renovated the space with 10 two-bedroom residential rental units and 6 commercial units on the ground floor. The housing units are affordable to local residents not because they are subsidized, but because of the low market rents in the area. The renovated building provides quality, accessible units for the local community and serves as a community asset; the commercial space was leased by Academy of Scholastic Achievement (ASA), a nonprofit public charter high school that serves high-risk youth.

ABOUT COMMUNITY INVESTMENT CORPORATION
Community Investment Corporation is a CDFI that finances the acquisition, rehabilitation, and preservation of multifamily rental housing in the Chicago area. CIC invests in credit-starved communities and ensures affordable housing for Chicago’s workforce. Since 1984, CIC has made 2,000 loans for $1.2 billion to rehabilitate more than 55,000 units of affordable rental housing. CIC also coordinates The Preservation Compact, a forum where private, public, and philanthropic leaders develop and promote policies to preserve affordable rental housing in Cook County.

Acquisition, rehab, and energy-efficiency improvements cost $52,000 PER UNIT, significantly less than new construction.
INVESTING IN HISTORICALLY UNDERSERVED COMMUNITIES

Unlike common strategies for affordable housing acquisition and rehabilitation, the preservation of 4657 West Madison Street occurred with no public resources, tax credits, or subsidy programs—simply financing made available from a CDFI. In the Chicago metropolitan area, privately owned buildings like this one, generally with 5 to 100 units, make up most affordable rental housing. However, current and potential owners in low- to moderate-income neighborhoods such as Austin are often unable to access capital from traditional lenders, creating long-term underuse, vacancy, and even dilapidation and demolition of housing. CDFIs such as CIC play a major role in the recovery and stability of these neighborhoods.

The acquisition and rehabilitation of 4657 West Madison cost $824,733, and the owner received $418,900 in financing from CIC. Including energy efficiency improvements, costs averaged a little more than $50,000 per unit, significantly less than new construction. In addition to the loan, CIC provides technical assistance and hands-on service to clients, often “ma and pa” owners, to ensure success.

ORGANIZING FOR PRESERVATION POLICY IN CHICAGO

As cities such as Chicago face the loss of affordable rental housing—whether through rising market values, expiring subsidies, or localized market failures such as the one affecting 4657 West Madison—policy and program networks are an opportunity to create innovative, collaborative strategies to preserve affordable units. The Preservation Compact is a policy collaborative led by CIC, created with funding from the MacArthur Foundation, to bring together housing stakeholders and create a one-stop-shop for preservation strategies, policies, and programs. Members of The Preservation Compact include federal, state, and local government officials, advocacy and civic groups, lenders, and for-profit and nonprofit housing developers. The group has been able to identify and address many policy opportunities in the Chicago area. For example, after identifying a significant financing gap for one- to four-unit buildings, CIC and partners created a $26 million loan pool targeted to finance those properties.

One in a series that examines the challenges and opportunities to preserve affordable housing in various contexts across the United States. For more, see “Anatomy of a Preservation Deal”: http://www.urban.org/preservation
Located in Hartford, Connecticut’s Frog Hollow Neighborhood, near the State Capitol, Billings Forge Apartments is a 112-unit, 43 percent Section 8 family complex made up of an historic mill and other buildings. In 2013, the owner, the Melville Charitable Trust, selected Preservation of Affordable Housing, Inc. (POAH), to leverage investment for capital improvements while ensuring continued housing affordability and increasing resident services. POAH was able to structure the deal while educating partners on the process and timeline, and Melville remains involved as a special limited partner, focused on the property’s Firebox Restaurant and Café and related job-training and resident service programs. POAH’s property rehabilitation included unit updates, common area improvements, and systems upgrades. To complement activities offered by Billings Forge Community Works, a community-based nonprofit supported by Melville, POAH funds $50,000 annually for a resident services program with after-school activities, a community garden, farmers market, and job training and employment opportunities at Firebox.

ABOUT PRESERVATION OF AFFORDABLE HOUSING, INC.
Preservation of Affordable Housing is a nonprofit developer and property owner and manager working to create and preserve affordable rental homes for low- and moderate-income people. Founded in 2001 to fill a void in the preservation market, much of POAH’s work involves purchasing large, multifamily properties and recapitalizing them to ensure long-term affordability and physical viability. It owns close to 9,000 affordable homes in nine states and the District of Columbia.

Residents sit in the community garden at Billings Forge. Photo / POAH.
FINANCING AND AN ONGOING PARTNERSHIP

To expedite the late 2013 closing sought by Melville, POAH took title within 90 days of purchase commitment using a quick-strike acquisition loan from the Massachusetts Housing Investment Corporation (MHIC) and structured a two-part payment with cash at the initial closing along with a seller’s note to be paid at the closing of a Low Income Housing Tax Credit (LIHTC) transaction.

INNOVATIONS IN AFFORDABLE HOUSING PRESERVATION

Billings Forge is an example of how mission-oriented buyers and sellers can work together to quickly deliver fair value for a property while maintaining long-term viability and affordability. It also speaks to the importance of creating and maintaining partnerships: Melville is continuing as a limited partner and so is able to remain involved in a way more directly aligned with its core mission; and POAH is able to rehabilitate the project, maintain affordable housing, and contribute space and resources to Billings Forge Community Works to support residents and the broader community. The project also shows how an experienced, high-capacity team can carry out significant rehabilitation—$90,000 per unit—with- out displacing residents. POAH had a high-enough capacity and large-enough balance sheet that it could move quickly to take on responsibility for the property while it assembled the resources and approvals necessary execute a full LIHTC recapitalization.

POLICY TOOL: DRAWING RESOURCES TOGETHER

Billings Forge is an example of a preservation project aided less by tailor-made policies than by stakeholders who are aware of just how complicated putting a deal together can be and who share some understanding of the steps needed to make that happen. In Billings Forge, this involved a number of elements. One was a private nonprofit investor and lender (MHIC) nimble enough to quickly provide short-term support while the longer-term federal LIHTC funding was in process. POAH also had access to various funding streams to assist with recapitalization and rehabilitation; particularly important was financial support through Connecticut’s Competitive Housing Assistance for Multifamily Properties program administered by the state’s Department of Housing and the Connecticut Housing Finance Authority. Finally, POAH was able to work with the city to establish a payment-in-lieu-of-taxes agreement, recognizing that the property tax assessment liability, if it does not account for the unique dynamics of rent-restricted properties, can jeopardize efforts to maintain affordability and undertake rehabilitation.

Information for this case study was gathered through interviews with and documentation provided by POAH.

About the Housing Assistance Matters Initiative: The Housing Assistance Matters Initiative educates Americans about the vital role of housing assistance. The initiative is a project of the Urban Institute, made possible with support from the HAI Group. The Urban Institute is a non-profit, nonpartisan research organization and retains independent and exclusive control over substance and quality of Housing Assistance Matters Initiative products.

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders. The authors thank members of the Preservation Working Group for providing information about notable affordable preservation efforts for this feature. Copyright © August 2016. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.
SEWARD TOWERS, MINNEAPOLIS:

Anatomy of a Preservation Deal

Mark Treskon and Sara McTarnaghan
August 2016

A high-capacity nonprofit weaves $50 million in public and private funds to renovate one of the Midwest’s largest project-based Section 8 affordable complexes.

Seward Towers East and West have been providing affordable housing to Minneapolis residents for more than 40 years. They are one of the largest subsidized properties in the Midwest: 623 of the towers’ combined 640 units are subsidized through a project-based Section 8 contract. CommonBond, which has managed the property for the Seward Towers Corporation since 1990, also provides on-site resident support services. In 2015, CommonBond, in partnership with Redesign and the Seward Neighborhood Group, used both public and private sources to refinance both buildings for $99 million and make $50 million in major renovations while retaining affordability and minimizing disruption to residents. The renovations, which began in January 2016, have required some temporary relocations within the property and to a nearby, newly constructed apartment. To minimize disruption and maximize community buy-in, CommonBond is working closely with residents, most of whom are East African.

ABOUT COMMONBOND COMMUNITIES

CommonBond Communities is the Midwest’s largest nonprofit provider of affordable housing with services. Founded in 1971, it combines affordable housing with its on-site Advantage Services model, providing free tools, community resource connections, and family support, to promote resident stability, advancement, and independence. CommonBond develops, owns, or manages more than 5,700 affordable rental apartments and townhomes, housing more than 9,000 people in Minnesota, Wisconsin, and Iowa.
BRINGING TOGETHER RESOURCES FOR FUNDING AT SCALE

To be successful, the Seward Towers project needed to coordinate private capital lenders—including Wells Fargo, JLL, and the AFL-CIO Housing Investment Trust—and a range of public local, regional, state, and national financing sources, such as the US Department of Housing and Urban Development, Minnesota Housing, the Metropolitan Council, Hennepin County, and the City of Minneapolis. Project-based Section 8 contracts keep rent affordable to lower-income residents, who pay no more than 30 percent of their adjusted income for rent. The new Section 508 contract for both buildings was effective in July 2015 and runs to 2035.

INNOVATIONS IN AFFORDABLE HOUSING PRESERVATION

The Seward Towers project shows how high-capacity nonprofit developers can work with private industry, local government, and neighborhood organizations to preserve significant affordable housing stock. Preservation required balancing financial and community-driven concerns regarding the scale and scope of the work and the rehabilitation process itself. Incorporating both occupied rehabilitation and on-site temporary relocation to “hotel” units, CommonBond worked closely with the community to determine the scope of and logistics around the renovations. The project also illustrates how preserving affordability is a long-term commitment. If Section 8 subsidies are allowed to expire, they cannot be transferred elsewhere, and are lost entirely. CommonBond originally became involved with Seward Towers in 1990, when the original Section 8 contract was expiring and the then-property owner was looking to convert the building to market-rate units. At that time, CommonBond worked with the Greater Metropolitan Housing Corporation, Redesign, and the Seward Neighborhood Group to create the Seward Towers Corporation, purchase the property, and renew the subsidy contract. By 2015, the 45-year old property needed extensive rehabilitation work to preserve its Section 8 contract. This required extensive work on systems and upgrades to meet building codes and safety requirements. CommonBond’s capacity to balance resident, community, and funder concerns over multiple decades is a key to the project’s success.

COORDINATING PUBLIC AND PRIVATE FUNDING

Seward Towers, Minneapolis, MN

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One in a series that examines the challenges and opportunities to preserve affordable housing in various contexts across the United States. For more, see “Anatomy of a Preservation Deal”: http://www.urban.org/preservation

Information for this case study was gathered through interviews with and documentation provided by CommonBond Communities.

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After a devastating fire in an affordable apartment building, tenant purchase and green rehabilitation preserve diversity in a rapidly changing Washington, DC, neighborhood.

After Monseñor Romero Apartments residents were displaced in 2008 by a five-alarm fire that destroyed all but the façade of their apartment building, purchase through the District of Columbia’s Tenant Opportunity to Purchase Act (TOPA) brought affordable housing units back to the property. On behalf of the tenants, National Housing Trust/Enterprise Corporation (NHT/Enterprise) purchased the building in 2010 after extensive coordination and regular tenant association meetings. Four years later, after major rehabilitation, over 60 percent of the original tenants returned to the neighborhood and their apartments. The building today contains 67 units and is home to predominantly low-to-moderate income Latino families. It is located in a high opportunity area where residents enjoy access to amenities, public transportation, and employment opportunities.

NHT/Enterprise engineered the deal by working closely with residents, local officials, and neighborhood partners to assemble multiple layers of affordable housing financing. Partners accessed additional funding to facilitate green renovation of the building, including solar panels, a green roof, sensor-activated electrical fixtures, water-reducing fixtures, and use of sustainable, nontoxic building products.

ABOUT THE NATIONAL HOUSING TRUST/ENTERPRISE

NHT/Enterprise is a joint effort of the National Housing Trust and Enterprise Community Partners, Inc., two national housing nonprofits committed to producing and preserving affordable housing and to policy advocacy around these issues. NHT/Enterprise collaborates with local partners and investors to raise the capital necessary to purchase and renovate affordable apartment buildings at risk of being converted to market-rate properties or suffering from deterioration. NHT/Enterprise has preserved and improved nearly 5,000 affordable homes in 9 states and the District of Columbia using innovative financing mechanisms.

Low-income residents save $1,800 annually in utilities from a green preservation strategy.

Rehabilitated Monseñor Romero Apartments on the Mt. Pleasant Street Commercial Corridor.

Photo / National Housing Trust
FINANCING THE DEAL

It takes a significant amount of resources to preserve affordable housing in gentrifying neighborhoods in high-cost cities like Mount Pleasant in the District of Columbia. The only way to make the rents affordable in the face of quickly rising market prices for buildings and market rents for units is to provide significant subsidies on either the development side, such as federal 9 percent Low Income Housing Tax Credits or a loan from the District’s Department of Housing and Community Development, or on the rent side through project-based Housing Choice Vouchers or similar tenant subsidies.

INNOVATIONS IN AFFORDABLE HOUSING PRESERVATION

The acquisition and restoration of Monseñor Romero Apartments provides key lessons for other housing practitioners and policymakers for its neighborhood context, acquisition strategy, and its physical rehabilitation strategy centered on both historic preservation and green building. The work on the part of NHT/Enterprise to engage, inform, and obtain buy-in from residents displaced by the fire and from local officials and neighborhood partners to avoid permanent displacement, is reflected by the support of these groups in the NHT/Enterprise application for Low Income Housing Tax Credits. This buy-in from community members was strengthened by NHT/Enterprise’s commitment to retain the historic character of the property, an anchor of the neighborhood. The redesign achieved historic tax credit design standards while maintaining affordability and introducing sustainable energy efficiency solutions.

DC’S TENANT OPPORTUNITY TO PURCHASE ACT (TOPA)

Amid expiring subsidies or rising property values, a key strategy for affordable housing preservation in Washington, DC, is TOPA passed in the late 1980s. Under TOPA, landlords are required to provide tenants with an offer of sale. Tenant organizations have 90 days to issue a statement of interest. At this point, the tenant organization and landlord enter a 120-day negotiating period. Tenant organizations can either purchase a building outright or assign or sell rights to other groups, as was done in the case of Monseñor Romero. Recently, many cities and states are creating resident opportunity-to-purchase (or right-of-first-refusal) legislation as an affordable housing preservation strategy. Such a tool provides an opportunity for dialogue between property owners looking to sell and the residents affected by that decision. If residents can connect with necessary finance tools and project partners, it can be an important first step for preserving the affordable housing stock, especially in a strong housing market like Washington, DC.

Information for this case study was gathered through interviews with and documentation provided by the National Housing Trust.

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