

**PARTNERS IN INNOVATION:  
A DIALOGUE ON FEDERAL, STATE, AND LOCAL RENTAL PRESERVATION SOLUTIONS**

**MARCH 17, 2009 • WASHINGTON, D.C.**

**SYMPOSIUM PROCEEDINGS**

**INTRODUCTION**

While the recent mortgage foreclosure crisis has galvanized the attention of lawmakers and the media in the past year, a quieter – but no less destructive – housing crisis has threatened the affordable rental stock for much longer. Between 1995 and 2005, demolition, conversion to condominiums, expiring government subsidies, and rapidly rising rents resulted in the loss of 1.5 million affordable rental homes.<sup>1</sup> Even with new construction we continue to lose ground: for every affordable rental unit built each year, two are lost.<sup>2</sup> This means there are not enough affordable homes for millions of Americans all across the nation, in urban and rural areas alike.

The current housing crisis presents an opportunity to once again put housing atop the agenda as a critical platform for strong families and healthy communities. As the allure of homeownership dims, the focus of national policymaking can broaden to include rental housing, recognizing the key role that rental homes play in stabilizing neighborhoods, fueling economic development, and providing a home for one out of three Americans. The depth of the housing crisis requires all levels of government to step up and work together to press the case for rental housing as an asset critical to the growth and prosperity of all communities.

This report synthesizes the proceedings of *Partners in Innovation: A Dialogue on Federal, State and Local Rental Preservation Solutions*, a symposium hosted by the John D. and Catherine T. MacArthur Foundation and the National Housing Conference on March 17, 2009 in Washington, DC. This gathering provided an opportunity to learn from leaders of efforts to preserve affordable rental housing, including officials from 12 states and cities that recently received awards from the MacArthur Foundation's *Window of Opportunity* initiative. The 10-year, \$150 million MacArthur initiative will support the preservation of affordable rental homes for more than 70,000 families across the US. During the

---

<sup>1</sup> During this time period, 1.5 million units renting for less than \$600/month were lost from the inventory; of these, nearly two-thirds rented for less than \$400/month. Source: Joint Center for Housing Studies of Harvard University. 2008. *America's Rental Housing: The Key to a Balanced National Policy*, p. 15.

<sup>2</sup> National Housing Trust. *Why Preserve Affordable Rental Housing?* Issue Brief, p. 2.

gathering, leading public officials supplemented the conversation with thoughts on the role of the Federal government in supporting state and local preservation initiatives.

The conversation at the symposium was organized around three key topics:

**1. Now More than Ever: Why Preservation Matters** – Many state and local leaders have prioritized the preservation of affordable rental housing to meet the needs of seniors, low-wage workers, families with children and people at risk of homelessness in their communities. Participants in this discussion provided an overview of why preservation matters today and into the future.

**2. Smart Preservation: How to Make Affordable Rental Housing More Energy Efficient and Leverage its Location to Transit** – Assessments of housing affordability are increasingly being broadened to recognize the connections between housing, transportation, and land use as a bundle of factors determining the “cost of place.” During this dialogue, symposium participants discussed innovative approaches to retrofitting existing affordable rental housing to improve energy efficiency, as well as strategies for preserving the affordability of neighborhoods near transit.

**3. Partners in Innovation: How Federal Policy Can Support Innovative Approaches to Preservation at the State and Local Level** – This discussion highlighted specific regulatory and policy changes that could strengthen state and local efforts to preserve the affordability of rental housing in both rural and urban settings with varying levels of market activity.

• • •

#### **1. NOW MORE THAN EVER—WHY PRESERVATION MATTERS**

*Panelists: Dan Bartholomay, Commissioner, Minnesota Housing; Tina Brooks, Undersecretary, Massachusetts Department of Housing & Community Development; Mercedes Marquez, General Manager, Los Angeles Housing Department; Nancy Muller, Policy Director, Florida Housing Finance Corporation; Will White, Senior Advisor, Office of Senator Jeff Merkley; Moderated by Erika Poethig, Associate Director for Housing, John D. and Catherine T. MacArthur Foundation*

How can states and localities make the case that affordable rental housing preservation deserves attention in the midst of an economic crisis that grew out of single-family mortgage foreclosures? As one panelist pointed out, in many communities the “housing bubble” has started to deflate, leading some officials to believe that affordability is no longer a critical issue. Nevertheless, the mismatch between affordable rental housing supply and demand persists, and in some places it has been

exacerbated by increased pressure on the rental market from families affected by foreclosures. In terms of supply, many communities have a lot of catching up to do: in recent years, many of the newly-built market-rate rentals have been targeted at higher-income families, while affordability covenants on older multifamily buildings continue to expire. Foreclosures have also affected the rental market directly, particularly among smaller 2-4 unit buildings where owners may occupy one of the apartments.

Panelists described several key arguments that highlight the ongoing importance of affordable rental homes:

**Rental homes serve all income levels, including the very poor** – The current economic crisis has exposed many of the problems and exacerbated some of the challenges associated with homeownership – particularly for very low-income households – including limited credit availability, the damaging impacts of job loss and financial upheaval, and the effects of overall economic instability on the most vulnerable. While there is widespread acknowledgement that rental housing provides a flexible housing option for young people just starting out and older people scaling back, it is also critical for families that simply do not have the resources to own a home, no matter how affordable homeownership becomes, or do not wish to expose themselves to the financial risks associated with homeownership. Affordable rental homes also provide a venue to serve the formerly homeless or at-risk populations through arrangements such as supportive housing and residential hotels.

**Rental homes provide affordable housing options in “connected” neighborhoods that allow families to reduce their combined costs for housing and transportation** – In many communities, families still need to “drive ‘til they qualify” for affordable homes on the outskirts of the metropolitan area. With few options for public transit or jobs or amenities within walking distance of home, these families often end up shouldering increased transportation costs that outweigh any savings on housing. According to research from the National Housing Trust, however, 250,000 subsidized rental homes are located within one-half mile of transit, as are thousands more unassisted but affordable units. The option to forgo car ownership, or at least reduce reliance on a personal vehicle, dramatically reduces the “cost of place” for residents in these areas.

As many of the panelists noted, investment in transit corridors and economic development initiatives tends to drive up the cost of nearby housing. In these areas, in particular, preservation initiatives can help to ensure the continued availability of a strong stock of affordable homes with close access to

employers and services. Mercedes Marquez, director of the Los Angeles Housing Department (LAHD), noted that LAHD uses mapping software to ensure that preservation activities are concentrated in areas near public transit.

**Preservation helps communities conserve scarce public resources** – As many practitioners noted, preservation of existing rentals is often less costly than new construction. Tina Brooks, undersecretary of the of the Massachusetts Department of Housing and Community Development, was one of several who made this point, citing analyses by the Citizens’ Housing and Planning Association in Massachusetts. In addition, existing affordable units can often be found in compact, mixed-use developments near transit – the type of neighborhoods that the state’s “smart growth” legislation seeks to promote due to their lower per-capital energy use and greenhouse gas emissions.

Manufactured homes and the parks on which they are sited represent an important subset of the affordable housing stock, particularly in rural areas. In recent years, many parks have been bought out and redeveloped – especially in areas on the fringes of metropolitan areas – taking away an affordable asset unlikely to be replaced. Will White, former director of Portland Oregon’s Bureau of Housing and Community Development, pointed out that Oregon has developed a program to support park residents in the cooperative purchase of their parks, as well as legislation providing financial resources to residents when relocation does occur.

#### **Categories of Affordable Rental Housing Targeted by *Window of Opportunity***

The MacArthur Foundation’s *Window of Opportunity* Initiative focuses on two categories of affordable rental homes that are in need of preservation, each with its own challenges and opportunities:

The *unassisted* stock consists of private-market rental homes made affordable as a result of building age, market conditions, or other factors. In many states and local communities, these buildings make up a significant share of the affordable stock. Dan Bartholomay, commissioner of Minnesota Housing, estimates that half of the affordable rentals in the state do not receive assistance. In “hot” housing markets these units may be lost to rent increases or conversion to condominiums, while physical deterioration and financial losses can threaten their viability in areas where demand is less robust.

The owners of *assisted* buildings receive subsidies in exchange for a commitment to keep rents affordable to low-income households for a designated period of time. An estimated 1.5 million families currently live in privately-owned rental homes that receive some sort of federal rental subsidy. As affordability contracts expire, owners of assisted properties may choose to opt out of re-enrolling in subsidy programs, particularly in neighborhoods where local market rents have increased since program

participation began.

A third category of affordable rental homes – public housing – represents an important national housing resource that houses approximately one million families and faces preservation challenges of its own. The John D. and Catherine T. MacArthur Foundation has a separate line of grant-making that addresses this component of the housing stock, with a particular focus on the revitalization of public housing in Chicago.

**Examples Highlighted in the Symposium:**

- *Florida Housing Finance Corporation, Florida Housing Coalition and the Shimberg Center for Housing Studies at the University of Florida*

The Florida Housing Finance Corporation (FHFC), Florida Housing Coalition (FHC), and Shimberg Center enjoy an established partnership that allows each organization to offset its weaknesses and benefit from the others' strengths. FHC is a membership-based nonprofit organization that specializes in technical assistance and trainings, while the Shimberg Center focuses on data collection and analysis. Both organizations enjoy the support of FHFC and all work together through partnerships that have been codified by statute.

Nancy Muller, policy director of FHFC, pointed out that each organization is capable of operating in a different political environment, allowing them to respond flexibly to the most pressing needs. For example, following Hurricanes Katrina and Rita the Shimberg Center worked with the Federal Emergency Management Agency to supply data on hurricane destruction and damage, while FHC changed its focus to recovery efforts.

- *Community Economic Development Assistance Corporation (CEDAC) and the City of Boston*

CEDAC is a public-private Community Development Financial Institute (CDFI) that provides an array of services across a broad range of issues related to community development. In addition to providing funding and technical assistance to developers of affordable homes, CEDAC has been the steward of a database of preservation projects and in this capacity has worked closely with the City of Boston.

With support from the MacArthur Foundation, CEDAC will implement an Interagency Working Group to coordinate housing preservation activities across all levels of government, including formulation of a joint plan to stabilize subsidized properties. Foundation resources will also

support a formal advisory board for preservation, which will operate on a statewide basis building on the experience of CEDAC and the City. The Board will include tenant organizations and support projects that foster social and economic integration within communities.

- *Minnesota's Interagency Stabilization Group*

The Interagency Stabilization Group includes representatives from the US Department of Housing and Urban Development, the Cities of Minneapolis and Saint Paul, the non-profit Family Housing Fund and Greater Minnesota Housing Fund, and Minnesota Housing, the state's housing finance agency. Members of the group had been coming together informally to preserve faltering rental housing projects, and decided that a more systematic approach was needed. Through the Interagency Stabilization Group, developers are now able to apply for all available funding sources simultaneously through a consolidated request for proposals process, and all Group members use the same set of loan documents and share due diligence to make for more efficient closings. The Group has recently expanded its focus to green affordable housing and has implemented the Enterprise Green Communities standard in projects across the state.

## **2. SMART PRESERVATION: HOW TO MAKE AFFORDABLE RENTAL HOUSING MORE ENERGY EFFICIENT AND LEVERAGE ITS LOCATION TO TRANSIT**

*Panelists: Dave Evans, Assistant Executive Director of Multifamily Housing, Pennsylvania Housing Finance Agency; Anne Evens, Director of Energy, Center for Neighborhood Technology; Gus Seelig, Executive Director, Vermont Housing & Conservation Board; Terrance Ware, Director of Housing & Neighborhood Development, City of Denver; Keynote and moderated by Michael Bodaken, President, National Housing Trust*

As Congressman Earl Blumenauer (OR) noted in his remarks, the nation is in the midst of a “perfect storm” of energy instability and mortgage foreclosures. Although the price of gasoline and home heating oil has fallen from the levels reached in late 2008, energy prices continue to fluctuate unpredictably and, most experts agree, will only continue to rise over the long term. This will increase transportation costs for families who sought low-cost housing far from their place of work, leading to greater housing instability. As part of our response to these events, Blumenauer continued, now is the perfect time to focus on sustainability and the importance of “squeezing value...out of the housing process” by strategically linking housing and transportation to get more out of each public dollar

invested. Housing located near transit can come at a premium, both in thriving communities and in areas undergoing a renaissance where neighborhoods with easy transit access are often “the first to come back.” By targeting scarce public funding for housing on transit-accessible locations, we can preserve or create new affordable housing opportunities that also have a lower “cost of place” for the residents.

On top of the value associated with strategic location, the preservation of affordable rental homes on its own is fundamentally energy-efficient– it doesn’t require consumption of new land or installation of new infrastructure for roads or utilities, it conserves the energy and materials associated with building new housing, and it frequently provides housing choice in areas with access to public transit. Building owners can go even farther to preserve the quality and affordability of existing rentals through energy-efficient retrofits and rehab that help to reduce energy consumption and lower utility costs.

The operation and maintenance of older affordable developments is expensive, and extensive work may be needed to get properties back to peak condition. Through energy-efficient rehab, communities can simultaneously achieve the goals of preserving affordable rental homes, reducing operating and maintenance costs, and improving the energy efficiency of the existing housing stock. Particularly in slower markets, energy-efficient retrofits help to preserve the viability of older affordable units in need of substantial maintenance, which might otherwise deteriorate.

Building owners can take many approaches to improving energy efficiency depending on their budget and the state of the property – from renovating the entire building to focusing on “low hanging fruit” – interventions that can be completed at a relatively low cost and deliver quick pay-offs. For example, the Vermont Housing and Conservation Board focuses on improvements that will pay for themselves over a 30-year lifecycle of the property, while Pennsylvania’s ‘Preservation through Smart Rehab’ program focuses on improvements that will be paid back in fewer than 10 years.

Despite the documented benefits of energy-efficient retrofits, the process of securing and undertaking them is still a relatively new one for many building owners, and without guidance can be a complicated, multi-step process without clear payoffs. As Anne Evens, director of Energy Services at Chicago’s Center for Neighborhood Technology noted, savvy building owners can usually predict the value in the marketplace of cosmetic investments, but the market value of energy improvements has not yet been determined. States and localities have taken steps to help building owners ease into this process. In Pennsylvania, the Preservation through Smart Rehab program provides energy audits by certified

practitioners, in some cases subsidizing the cost of the audit for properties that lack adequate financial resources. According to Gus Seelig, executive director of the Vermont Housing and Conservation Board, the State of Vermont is in the process of streamlining and consolidating four main energy-efficiency programs to provide a single point of entry for housing developers and residents. Improved data collection and analysis can help in the development of a standard measure of energy efficiency, similar to gas mileage for personal vehicles, to provide additional guidance to building owners and developers.

Finally, the move to increased energy efficiency also presents an opportunity to create jobs and engage the workforce in the “greening” of affordable homes. Seelig noted that Vermont’s trade college has started training for green jobs; elsewhere, community colleges are offering green jobs programs.

### **Highlighted Examples:**

- *Denver’s Transit-Oriented Development Fund*

Terrance Ware, director of Housing and Neighborhood Development in Denver, Colorado, noted that new opportunities for transit-oriented development have opened up as the city has started the process of converting land zoned for industrial use to residential districts. A streetcar system and 120 miles of fixed-rail and bus rapid transit will help to serve residents in these areas. The Transit-Oriented Development Fund, a \$15 million loan pool created by the City and County of Denver, Enterprise Community Partners, and Urban Land Conservancy and supported by the John D. and Catherine T. MacArthur Foundation, will be used to acquire existing and vacant properties near the planned transit corridors to create and preserve affordable rental and homeownership units.

- *Center for Neighborhood Technology Energy Savers Program*

This “one stop efficiency shop” provides a full spectrum of resources to help owners of multifamily buildings in Cook County, Illinois improve the energy efficiency of their properties. Specific services include energy assessments and recommendations, financing tools, and assistance and oversight during all phases of the construction process. The program is a partnership between the Center for Neighborhood Technology and non-profit lender the Community Investment Corporation, along with the City of Chicago Departments of

Environment and Housing, the Chicagoland Natural Gas Savings Program, the Urban Land Institute, Polk Bros. Foundation, and the John D. and Catherine T. MacArthur Foundation.

### **3. PARTNERS IN INNOVATION: HOW FEDERAL POLICY CAN SUPPORT INNOVATIVE APPROACHES TO PRESERVATION AT THE STATE AND LOCAL LEVEL**

*Panelists: Rafael Cestero, Commissioner, New York City Department of Housing Preservation and Development; Hal Keller, President, Ohio Capital Corporation for Housing; Carla Pope, Director of Affordable Rental Production, Iowa Finance Authority; Bill Rumpf, Deputy Director of Housing, City of Seattle; Pat Sylvester, Director, Multifamily Housing, Maryland Department of Housing & Community Development; Moderated by Julia Stasch, Vice President, Program on Human and Community Development, John D. and Catherine T. MacArthur Foundation*

As MacArthur Foundation President Jonathan Fanton noted in his opening remarks, states and cities have often been the sources of innovation in housing policy, generating ideas and programs that may eventually percolate up to the federal level. With this in mind, U.S. Department of Housing and Urban Development (HUD) Secretary Shaun Donovan pledged to promote a “renaissance” in the Department’s work with state and local partners and a renewed focus on “people and places” rather than “process and program.” In particular, HUD will foster partnerships to support state and local preservation initiatives by focusing on three specific federal roles:

- *Building on the investments in the American Recovery and Reinvestment Act (ARRA) to promote an expanded commitment to the preservation of public and assisted rental housing – ARRA makes \$2 billion available to fulfill annual funding contracts for properties that receive assistance under the Project-based Section 8 program. Secretary Donovan noted that this investment will help to stabilize contract renewals for these properties and reduce the pressure for owners to opt out of the Section 8 program by reassuring private lenders that these properties are viable, opening up financing options for property improvements. ARRA also dramatically increases funding for the Department of Energy’s (DOE) Weatherization Assistance Program, which provides free energy efficiency upgrades to low-income families. Moving forward, partnerships between HUD and DOE will help to facilitate the use of Weatherization funds and other energy-efficiency initiatives in the multifamily housing stock.*

- *Renewing the focus on data and research* – Measurement and evaluation of housing programs, whether at the federal, state, or local level, is essential to understanding their benefits and impacts. The availability of reliable and easily accessible data can also help preservation practitioners get ahead of the curve in identifying rental properties that may be at heightened risk of loss from the affordable stock. Secretary Donovan noted that HUD will make a commitment to providing data to help practitioners in the field evaluate and document the impact of HUD programs.
- *Providing policy direction and partnerships “on the ground”* – Secretary Donovan stated that rather than setting up barriers to innovative work at the state and local levels, HUD will serve as a flexible partner. US Department of Agriculture Secretary Tom Vilsack echoed the call for partnerships across departments and all levels of government, emphasizing the importance of rental assistance in rural communities, particularly for senior citizens and people with disabilities.

While many new resources are available through ARRA and other sources, turmoil in the capital markets has meant that access to the Low-Income Housing Tax Credit and other sources of project financing is proving to be particularly challenging. Carla Pope, director of Affordable Rental Production at the Iowa Finance Authority, pointed out that many rural preservation projects rely on private financial investors, who need assurances that these projects continue to be sound investments. Pat Sylvester, director of Multifamily Housing at the Maryland Department of Housing & Community Development, added that investor activity varies throughout the state. While projects in some parts of Maryland are still able to attract investors, the state continues to struggle to provide enough gap financing to provide affordable housing in other regions with less investor activity.

Improvements in existing tools can help to ease some of these challenges; for example, a recently-established partnership between HUD and DOE will make it easier to apply Weatherization Assistance Program funds to the energy efficient rehab of affordable multifamily housing. Bill Rumpf, deputy director of Housing for the City of Seattle, noted that the City hopes to put two-thirds of its Weatherization funds towards multifamily housing. Streamlining and simplifying other financing programs, such as the FHA risk sharing program, will also help to support affordable development and preservation.

## Highlighted Examples:

- *The Robert Wood Johnson Foundation's Coming Home program*

The *Coming Home* program provides one model of partnership between different levels of government. This program was initiated in 1992, and focused on developing affordable assisted-living facilities for low-income seniors in rural communities. As of April 2006, the program had led to the completion of 45 affordable assisted-living facilities with nearly 1,700 units, and an additional 53 projects in development with nearly 1,800 more units in the pipeline. To achieve these results, the program brought federal, state, and local entities together with the health and development communities to talk about obstacles to development and come to consensus about how to solve them. In some cases, this collaborative effort resulted in rule changes or revised policies; in other cases, specific guidance or assistance helped the process.

- *The Preservation Compact: A Rental Housing Strategy for Cook County*

The Preservation Compact is a coalition of public, private and nonprofit leaders dedicated to preserving the affordable rental housing stock in the Chicago region. In 2007, under the guidance of the Urban Land Institute and with funding from the John D. and Catherine T. MacArthur Foundation, the Compact issued a Rental Housing Action Plan to preserve 75,000 units of affordable rental housing in Cook County by 2020. The plan includes a number of innovative elements including an interagency council, which draws its membership from a broad cross-section of agencies and levels of government, and development of a rental housing data clearinghouse. The interagency council will work to better coordinate government programs and improve information flow. The rental housing data clearinghouse will collect and maintain information on both subsidized and unsubsidized stock and serve as an early warning system for properties at risk of leaving the affordable market.

## CLOSING REMARKS

As National Housing Conference President and CEO Conrad Egan noted in his closing remarks, it is “time to strike while the iron is hot” and pursue policy changes and partnerships that can advance preservation initiatives in communities across the country. Further opportunities for collaboration can

be found on the HousingPolicy.org Forum via the [Rental Housing Preservation Discussion Group](#) which is managed by the National Housing Trust and set up to facilitate exchanges around pressing preservation questions and issues. Additional information about the preservation of affordable homes, including profiles of the 12 state and local housing preservation leaders, can be found in the [HousingPolicy.org Toolbox](#). Additional information about the MacArthur Foundation's grantmaking to support the preservation of affordable rental homes can be found on [the Foundation's website](#).