



Anatomy of a Preservation Deal

Innovations in Preserving Affordable Housing from around the United States

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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.¹ 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,² 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,³ 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

	Putnam Square Apartments	Billings Forge Apartments	Monseñor Romero Apartments	4657 W. Madison St.	Seward Towers	Vida Lea Cooperative
Location	Cambridge, MA	Hartford, CT	Washington, DC	Chicago, IL	Minneapolis, MN	Leaburg, OR
Geographic context	Urban	Suburban	Urban	Urban	Urban	Rural
Number of units	94	112	67	10	640	33
Preservation strategy	40T acquisition with moderate rehab; subsidy contract renewal	Acquisition and substantial rehab	Tenant purchase	Acquisition and substantial rehab	Subsidy contract renewal; refinancing	Tenant purchase
Owner type	Nonprofit organization	Nonprofit organization	Nonprofit organization	Private individual	Nonprofit organization	Resident cooperative
Special features	Green building; resident services	Mixed-income; mixed-use; historic preservation; resident services	Green building; historic preservation	Mixed-use	Mixed-income	Resident ownership

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;

- MassHousing;
- NeighborWorks America;
- The Cambridge Affordable Housing Trust;
- The Cambridge Department of Housing and Community Development; and
- The Massachusetts Department of Housing and Community Development.

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 lenders 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

1. Reed Jordan and Erika C. Poethig, "How to keep affordable housing in high-opportunity neighborhoods," *Urban Wire* (blog), Urban Institute, October 20, 2015, <http://www.urban.org/urban-wire/how-keep-affordable-housing-high-opportunity-neighborhoods>.
2. Although a federal resource, LIHTC funding is allocated through state Qualified Action Plans, by which states establish preferences.
3. "Neighborhood Investment Fund," Office of the Deputy Mayor for Planning and Economic Development, accessed August 18, 2016, <http://dmped.dc.gov/service/neighborhood-investment-fund>.
4. "Background," ROC USA, accessed August 18, 2016, <http://www.rocusa.org/about-us/background/default.aspx>.
5. "Policy Advocacy Overview," National Housing Trust, accessed August 18, 2016, http://www.nhtinc.org/public_policy_main.php.

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