



Mercy Housing

TRENDS IN AFFORDABLE HOUSING

Observations from the Affordable Housing Symposium

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INTRODUCTION

On July 8, 2003, 10 of the nation's top housing practitioners met with the leaders, board members, and senior managers of the Low Income Investment Fund (LIIF) and Mercy Housing, Inc. The goal of the symposium, convened by LIIF and Mercy Housing, was to gather intelligence for strategic planning by beginning a dialogue on critical variables and trends in affordable housing. The presenters, panelists, and 35 other participants conducted wide-ranging discussions on areas ranging from housing finance and federal housing policy to on-the-ground conditions in specific communities. The report that follows summarizes their observations on the major challenges confronting affordable housing in the next decade, as well as their explorations of potential new markets and approaches to the field.

The symposium was facilitated by Helen Dunlap, President of ShoreBank Advisory Services. Presenters included Sister Lillian Murphy, President and CEO of Mercy Housing; Nancy Andrews, President of the Low Income Investment Fund; and the Honorable Geraldine Ferraro of Global Consulting, former member of Congress and Vice-Presidential Candidate.

Panelists included Peter Beard of the Fannie Mae Foundation; Michael Connelly of Catholic Healthcare Partners; Sheila Crowley of the National Low Income Housing Coalition; Andrew Ditton of Citigroup; Janet Falk of Mercy Housing, California; Moises Loza of the Housing Assistance Council; Shekar Narasimhan of the Campaign for Affordable Housing; Bill Rumpf of the Seattle Office of Housing; Debra Schwartz of the MacArthur Foundation; Ellen Seidman of ShoreBank Advisory Services; Steve Thomas of the Corporation for Supportive Housing; and Barry Zigas from Fannie Mae's Housing Impact Division.

TRENDS IN THE ENVIRONMENT

THE GROWTH IN COMPLEXITY

The tasks facing affordable-housing advocates—from raising funds to serving an increasingly diverse population—are more complicated today than in the past. Because of this growing complexity, organizations in the affordable-housing arena must examine and update both their strategic thinking and their tactics.

The Changing Funding Landscape

Because funding from government and philanthropic sources is insufficient to meet the need for affordable housing, many nonprofit organizations are working to transform themselves into institutions that meet the standards necessary to attract private investment. That means establishing and implementing rigorous benchmarks and performance measurements, as well as making greater investments in internal infrastructure. The pace of this transformation must continue to intensify if affordable-housing needs are to be met.

Changing Community Needs

Today's communities are also more complex. Poverty and homelessness—after declining during the 1990s—are once again on the rise, as a growing “wealth gap” further isolates the poor from mainstream society. In addition, because of a steady influx of immigrants, the needs of low-income communities are becoming more diverse than ever. Finally, as the population ages, the number of frail elderly residents in low-income communities is also rising, requiring a broader range of services to supplement and support housing initiatives.

The last few years have seen a great deal of community transition, particularly in rural areas. In some regions, surges in Hispanic immigration have increased the population by three or four times. The rural elderly (including many low-income and widowed residents) is also a growing group.

Because of the changing composition of low-income communities, nonprofit groups working for affordable housing must reassess their missions and broaden their activities as indicated. This may mean augmenting housing with support services that are delivered either directly or through partnerships with social-service groups. In the coming years, meeting the varied needs of affordable-housing residents will be a critical task for the industry.

THE REWARDS OF ENTREPRENEURIAL BEHAVIOR

The growing complexity of today's environment presents both challenges and opportunities. The time is ripe for creative new approaches to affordable-housing issues.

Creating New Business Lines

Financial institutions are realizing that low-income customers—especially immigrants—represent a large, untapped market opportunity. Nonprofit organizations with strong ties to this new customer base are well-positioned to play a vital role in linking underserved consumers to the financial-services industry. Facilitating such linkages can generate much-needed revenues for affordable-housing organizations, while also enabling low-income residents to enter the mainstream banking system—where they can obtain credit and build assets.

Identifying New Sources of Funding

Although federal housing funds are generally constrained at present, less conventional resources are still available in at least three areas: brownfield-redevelopment monies, community building resources, and employer-assisted housing.

Breaking Down Silos

Increasingly, the political environment accommodates efforts to integrate housing programs with other kinds of support. Organizations working in affordable housing would be well-advised to explore such opportunities, especially at the state and local levels. Affordable-housing advocates should strive to attain not only program integration, but also better efficiency in the areas of zoning and regulations.

Challenging Orthodoxies

Today's more entrepreneurial environment has created opportunities for those in the affordable-housing field to work with new kinds of partners, including organizations that may have been passed over in prior years. A prime example is Habitat for Humanity.

THE IMPORTANCE OF ROLE MODELS

Leading organizations in the areas of community development and affordable housing incur added obligations, but they also have an opportunity to widen their impact by inspiring other groups and individuals. It is vital that such organizations maintain lofty goals, making a conscious effort to be models for others in the field. Industry leaders have a responsibility to provide examples of long-term stewardship by surviving, becoming sustainable, and establishing organizational structures that others can learn from.

THE BIGGER PICTURE

Strong, well-respected organizations are in an excellent position not merely to build and finance individual projects, but also to spearhead interventions that will improve the affordable-housing system overall. To accomplish this, they should first examine the universe of players in affordable housing as an integrated whole, determining whether or not they leverage one another's strengths and occupy niches that make sense in terms of market supply and demand. These leading organizations should also explore ways in which the many institutions in the field can array themselves as a value chain in the marketplace, forming a genuine industry rather than a collection of experiments.

THE NEED TO BECOME MORE POLITICAL

Housing practitioners need to play a more active role in political advocacy as a strategy for improving the housing-delivery system. The housing conversation in Washington is currently dominated by those who believe that the system has failed; affordable-housing advocates need to convince policymakers that the system *does* work and that it saves dollars in the long run. Affordable-housing organizations must also demonstrate that they are working to update their practices as warranted, creating increasingly efficient ways of delivering affordable housing.

TARGETING THE RIGHT GOALS

Practitioners in the area of affordable housing should not allow themselves to be overwhelmed by the scope of the need. The federal government already devotes enormous resources to housing (primarily in order to encourage homeownership); what is needed now is a shift of attention and funding toward the lower-income end of the housing spectrum. Positioning affordable housing as a crisis of public responsibility does not make it attractive, nor is it likely to capture public dollars. Policymakers will be more receptive to a message that presents the affordable-housing sector as an effective user of capital.

STRATEGIC CHALLENGES

PRIORITIES IN WASHINGTON

Although the private and philanthropic sectors have become more involved in affordable-housing finance, federal funding remains crucial. The Bush Administration has proposed devolving major federal housing programs into state block grants; such a move might well reduce the federal funds available for affordable housing, driving up rents in subsidized buildings and eroding the stock of affordable units. While the Bush proposal is not likely to pass, it is also unlikely that federal funding for affordable housing will be expanded—despite ample evidence of growing need.

The Erosion of the CRA

In its early years, the Community Reinvestment Act (CRA) was a boon to the affordable-housing industry, drawing billions of dollars into the sector by changing corporate behavior, stimulating philanthropy, and increasing the credit available for affordable-housing production. Over the last 10 years, however, the revisions made to the CRA have weakened the act rather than broadening its reach. The era of big bank mergers—which drove CRA contributions—has ended, lessening the pressure for a strong CRA; in addition, the regulators' interest in influencing corporate behavior has waned. Meanwhile, the inconsistency of the CRA's regulatory environment has made the achievement of outstanding ratings difficult and unpredictable, removing the incentive for institutions (even those with good track records) to take steps that will support affordable housing.

Preservation

Preserving units financed with low-income-housing tax credits (when their 15-year use restrictions expire) presents yet another challenge to the sector. Affordable-housing organizations will need to examine buy-out prices, consider whether units require renovation, negotiate with investors, refinance, and perhaps resyndicate or arrange subsidies to make the projects work. It may take some time for the industry to determine the best model for this process.

New Federal Opportunities

Although federal housing funds are generally constrained at present, new funding for affordable-housing initiatives is still available in the areas of brownfield redevelopment, community building resources, and employer-assisted housing. Affordable-housing organizations should explore all of these avenues of possible funding.

Although not all brownfields lend themselves to housing development, the area represents a tremendous opportunity that will require creative, innovative thinking to be brought to fruition. Housing advocates should also explore methods of tapping the funds set aside for community building, including charter-school development, community facilities, health clinics, and day-care centers. In addition, the option of employer-assisted housing should be seriously considered as a means of leveraging new private resources for housing in the face of declining federal spending and private philanthropy. When combined with the other resources still available—such as tax credits—this unmined area could provide exciting new opportunities.

Finally, the affordable-housing industry should investigate other new possibilities that may be generated by changing federal priorities. Although federal housing support is stagnant, for instance, the new emphasis on homeland security might open up jobs in the Transportation Security Agency for residents of low-income communities. Housing advocates should seek creative ways to help their constituencies take advantage of changes in government spending.

FOUNDATION TRENDS

Today, housing is gaining ground as a focus for foundation giving. Though many grant-making organizations are drawn to funding for homeownership, some still recognize the importance of the rental housing sector. On the other hand, program-related investments (PRIs), in the form of low-cost capital to housing-funding groups, are unlikely to increase; the jury is still out on foundation investments in venture-capital funds.

CAPITALIZING ON A SUCCESSFUL MODEL

Nonprofit housing advocates have typically failed to publicize the success of their approach. The model works, but its accomplishments are not well known; many in Congress believe that money put into the Department of Housing and Urban Development is wasted. The affordable-housing industry needs to find better ways to trumpet its successes to policymakers, as well as to the general public.

Maintaining Perspective

When publicizing their accomplishments, housing advocates should strike a balance, discussing both individual successes and the bigger affordable-housing picture. Achievements can be personalized by highlighting their positive impact on the lives of real people, but the inadequate scale of affordable-housing initiatives should also be pointed out to both policymakers and the public. When speaking or writing on behalf of affordable housing, advocates can draw a parallel between the money foregone because of the mortgage-interest deduction (which primarily benefits wealthier citizens) and the persistent shortfalls in subsidies for low-income housing.

Educating the Public

Public campaigns to educate citizens about the need for affordable housing—and about the good results that have come from funding it—can result in support for affordable-housing levies. Sophisticated campaign tools and polling may be needed to help get the message across.

Stressing Cost-Effectiveness

Affordable-housing advocates need to create and disseminate messages emphasizing that investment in affordable housing is cost-effective and benefits society as a whole. Families who live in low-income housing contribute to society and pay taxes; affordable-housing spending also has positive effects on education and health care. An understanding of the long-term effects of affordable housing can help the industry to secure increased public funding.

Engaging Residents

Affordable-housing organizations often overlook one of their best resources: the political power of their own residents. Like advocates for the homeless, affordable-housing professionals should make sure that their clients register to vote and become well-educated about housing issues. Housing organizations can hold candidate forums at their facilities, ask political candidates what they intend to do about housing, and make sure that their residents get out to vote. Trained housing advocates can also follow politicians along the campaign trail, questioning them about affordable housing in front of the press. The impact of civic education and political engagement should not be underestimated.

Linking to “Hot” Issues

Whenever possible, housing advocates should associate their message with related popular issues. Smart growth, for example, is a movement with many adherents, and can easily be linked to the land-use questions related to affordable housing.

Leveraging Well-Known Examples

Organizations not traditionally considered part of the community-development orbit may prove to be useful partners for the affordable-housing industry. Habitat for Humanity, for example, is difficult to partner with and is viewed as a threat by many CDCs, but it is also a powerful organization that has attracted middle-class support while garnering substantial individual contributions. An immense opportunity exists for housing advocates to leverage Habitat's middle-class appeal, fundraising efforts, and mortgage-securitization strategy.

INVESTING IN INFRASTRUCTURE

The affordable-housing sector's efforts to increase its scale have been hindered by the industry's lack of investment in organizational infrastructure. Both the affordable-housing sector and the community-development field in general spend too little time and money on developing institutional capacity and leadership; this shortcoming limits their impact. Private capital for affordable housing is available, but there is a shortage of competent partners who can use the money wisely, become sustainable, and inspire confidence in investors.

One barrier to investing in organizational capacity is the weak funding support for such initiatives: it is difficult to make a case for infrastructure upgrades when they are competing for funds with activities that will make tangible improvements in the lives of low-income residents. A solution might be to focus on a handful of nonprofits, showing how they have strengthened their stewardship by becoming stronger internally. Publicizing this model to foundations could result in increased funding support for the building of organizational capacity.

DEVELOPING METRICS FOR PERFORMANCE ASSESSMENT

Up until now, the nonprofit sector has made poor progress in implementing measurements to assess its performance. The development of performance metrics has become a critical need for a number of reasons.

Meeting Private Investor Requirements

As community-development organizations seek increased private investment, good assessment tools will become a must. Investors, needing to establish that their funds are well-spent, will demand that affordable-housing advocates substantiate and quantify the positive results they claim to achieve.

Preparing for Increased Scrutiny

Because of the numerous corporate scandals that have plagued the U.S. economy over the past few years, nonprofit operations are also likely to draw increased scrutiny. The identification and use of well-conceived performance measurements will help the affordable-housing industry to prepare for this eventuality.

Proving that the Model Works

The use of performance metrics will prove intellectually what those in the field already know on an emotional level: that the approach used by the affordable-housing sector *works*. Performance measurements can be used to quantify both the scope of the problem and the efficiency of the solution. Publicizing these meaningful figures, in turn, will help garner public support for affordable housing.

Choosing Good Metrics

The affordable-housing sector should embrace a combination of performance metrics that will measure both organizational efficiency and improved community health. It is also important that reasonable standards of success be established. Homeownership, for example, is part of a middle-class model that may not be realistic when applied to lower-income residents; in many cases, stability may be a more appropriate measure of success than self-sufficiency. If the industry defines success in unrealistic terms, it will fail in the eyes of policymakers, regardless of its genuine accomplishments. Similarly, housing advocates need to agree among themselves on common definitions. Terms like “affordable,” “underserved,” and “homeownership” are used differently by different groups. (For example, should it be considered a success when a client owns a substandard or chronically overcrowded property?)

Affordable-housing organizations also need to balance measures of short-term and long-term achievement. Funders and policymakers need quick results to justify their investments, but building a community can take years.

Creativity and cooperation will be needed to develop a set of simple numeric metrics that can be accepted by the industry as a whole. Suggested measures of community health include job creation and the employment records of tenants before and after their placement in stable housing. The efficiency of affordable-housing organizations themselves might be gauged by measuring good-workplace characteristics, which the Gallup Organization has found to be positively correlated with organizational effectiveness.

STRATEGIC OPPORTUNITIES

The affordable-housing industry currently has three major opportunities to capture new markets and improve the efficiencies of the housing system.

INTEGRATION OF HOUSING AND SOCIAL SUPPORT

Both policymakers and practitioners have come to realize that pursuing a crisis response to poverty and homelessness is wasteful and inefficient. As a result, both are more open than ever to integrating housing with other kinds of support. Although providing supportive housing is time-consuming, it is a wise way to use funding, because a large number of low-income tenants face multiple problems—including mental illness, physical disability, substance abuse, and violence.

Affordable-housing practitioners should take a comprehensive look at the environments that confront their constituencies and consider advocating for service-enriched housing. Particularly at the state and local levels, there are many opportunities for integrating other programs (for example, welfare reform and transportation) with housing.

THE ROLE OF PRIVATE FINANCIAL INSTITUTIONS

The CRA may be eroding, but financial institutions can still be major suppliers of funds for the affordable-housing sector. Because new technologies have reduced the expense of managing numerous small-transaction accounts, banks have become increasingly interested in serving low-income populations. Nonprofits need to find ways to capitalize upon this newfound interest.

Today, large financial institutions want to reach beyond their traditional upper- and middle-class customers to tap a huge unserved market that includes lower-income consumers, minorities, and recent immigrants. The financial-services industry, however, does not know how to approach such customers, who may be unfamiliar with the formal banking system and have needs that differ radically from those of more sophisticated consumers. Affordable-housing practitioners, in contrast, know this market well and have access to the information needed by the financial-services industry. Housing advocates, therefore, should take advantage of this opportunity to benefit both their constituencies and their own organizations.

A good example of the opportunities made possible by this situation is the nonprofit organization Pay Rent, Build Credit, which is developing credit histories for people living in lower-income housing. Financial institutions are willing to pay the nonprofit for this service, because they cannot obtain the necessary information from their usual sources; consumers also benefit, because they are more likely to receive loans from banks when their credit histories

are readily available. The affordable-housing and financial-services industries have an excellent opportunity to work together for their mutual benefit—and for that of residents in lower-income housing.

STRATEGIC INTERVENTIONS

Experienced affordable-housing organizations with good reputations and large asset bases can take responsibility for designing strategic interventions that will make the affordable-housing system more efficient and productive.

Many nonprofits in the area of affordable housing have typically shied away from institutional financing mechanisms. Instead, they should consider building net worth and taking advantage of opportunities for mergers and acquisitions. They should also investigate the possibility of forging partnerships with universities and hospitals, which own a great deal of real estate and are in markets that affordable-housing organizations also wish to reach. Another possibility is to explore ways of getting equity out of property when subsidies expire, dispersing it to residents instead of simply getting new tax credits and recapitalizing.

CONCLUSION

The affordable-housing sector faces many difficult challenges today, including increasingly diverse communities, shifting government priorities, and widespread misconceptions regarding the industry's successes and failures. Each of these problems, however, also represents an opportunity. Federal funds can still be obtained by tapping unconventional resources; private investors can be attracted if affordable-housing organizations upgrade their infrastructures and institute valid performance metrics. Residents with varying backgrounds and needs can be effectively served by integrating housing initiatives with other kinds of support, as well as by mobilizing the financial services industry—which is eager to penetrate low-income, minority, and immigrant markets. Perceptions of affordable housing can be changed by publicizing successes and by highlighting the positive impact of stable housing on individual lives. Perhaps most importantly, the leaders in the sector can take responsibility for stepping back, examining the full range of affordable-housing organizations, services, needs, and constituencies, and taking the first steps toward transforming fragmented, piecemeal activities into a well-integrated, vital, and successful industry.