Grantmakers Supporting Community Change

PUBLIC POLICY PAPER

Neighborhood Funders Group

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More Than Shelter: A Grantmaker's Guide to Housing Programs and Policy

By J. Michael Collins

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Mission

Neighborhood Funders Group is a membership association of grantmaking institutions. Our mission is to strengthen the capacity of organized philanthropy to understand and support community-based efforts to organize and improve the economic and social fabric of low-income urban neighborhoods and rural communities. We provide information, learning opportunities, and other professional development activities to our national membership, and encourage the support of policies and practices that advance economic and social justice.

Public Policy Papers

This is the fifth in a series of papers intended to help grantmakers better understand affordable housing public policy issues and encourage strategic public and private investments in housing. Its focus on rental housing supplements the first paper, "A Grantmaker's Guide to Housing Policies: A foundation for social policy." There are many opportunities for foundations to address rental housing needs, either as freestanding initiatives or in concert with other efforts to reduce poverty, build self-sufficiency, or enhance family and community life.

Author

This paper was written for the Neighborhood Funders Group by J. Michael Collins. Mr. Collins is the principal of PolicyLab Consulting Group, LLC, a policy research and evaluation firm. PolicyLab's projects include research on financial planning strategies for the Ford Foundation, an evaluation of Chicago's Home Ownership Preservation Initiative, and experimental evaluations of financial literacy education and default counseling. Mr. Collins previously analyzed homeownership and mortgage programs for the Neighborhood Reinvestment Corporation (NeighborWorks America). He served as a policy consultant to the Millennial Housing Commission and as a researcher at the Joint Center for Housing Studies of Harvard University. He also worked as a grantmaker for the Greater Cincinnati Foundation. Mr. Collins has completed coursework for a Ph.D. in Policy Analysis at Cornell University, holds a masters of public policy from the John F. Kennedy School of Government of Harvard University, and a B.S. from Miami University. For more information, see www.policylabconsulting.com.

This and other publications may be ordered or downloaded from the Neighborhood Funders Group Web site at www.nfg.org.

More Than Shelter:
A Grantmaker's Guide to
Housing Programs and Policy

A Briefing Paper for the Neighborhood Funders Group

by

J. Michael Collins

July 2006

Executive Summary

Affordable housing is critical for lower-income families and communities. By supporting housing programs, foundations can influence the health of families, affect the education of children, improve neighborhoods and support economic justice and development. Among the actions foundations can take to support housing are:

- funding nonprofit programs that develop housing;
- participating in public-private partnerships to develop housing;
- making program-related investments that are used to build or redevelop housing; and
- making grants for research and campaigns that influence housing policy or public opinions about affordable housing.

Most communities face three challenges regarding housing. The first is the ability of working families to afford safe and adequate housing. This problem has worsened in recent years, especially at the lower end of the income distribution, as increases in housing costs have outpaced incomes. There are very few communities in which someone earning the minimum wage can afford even the lowest-cost apartment unit.

The second challenge involves production of affordable housing. There are many impediments to building affordable housing, even in areas of greatest need. These include a lack of land, high costs of development and opposition from existing residents. There are not enough federal, state or local public resources to provide affordable housing at a level that keeps up with the growing need.

The third challenge is related to preserving existing affordable housing. As property values rise and government programs designed to subsidize affordable housing expire, the affordable housing units that exist are being lost.

Foundations play a critical role in meeting all of these challenges. Foundations support community development organizations, provide funding for the planning and development of rental housing, and invest in programs or loan funds for lower-income, first-time homebuyers. Strategies might focus on specific neighborhoods or particular groups of people. Many foundations engage in collaborative approaches, leveraging public- and private-sector support for housing programs.

This paper provides a brief overview of major issues in affordable housing, as well as examples of tools and strategies that foundations have employed to address housing issues. It also presents conceptual models grantmakers can use for creating housing and community-development strategies.

This paper is based on a series of papers developed by the Neighborhood Funders Group, including:

- Expanding the American Dream: A Homeownership Guide for Grantmakers, 2004
- Ending Homelessness: The Philanthropic Role, October 2003
- Affordable Rental Housing and the American Dream: The Role for Foundations, April 2003
- A Grantmaker's Guide to Housing Policies: A Foundation for Social Policy Investments, February 2002

All are available at www.nfg.org.

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Why Should Foundations Get Involved in Housing?

The lead statement of the 2002 Millennial Housing Commission succinctly summarizes an important but often neglected point:

> "First, housing matters. It represents the single largest expenditure for most American families and the single largest source of wealth for most homeowners. The development of housing has a major impact on the national economy and the economic growth and health of regions and communities. Housing is inextricably linked to access to jobs and healthy communities and the social behavior of the families who occupy it. The failure to achieve adequate housing leads to significant societal costs."
>
> - Meeting Our Nation's Housing Challenges: Report of the Bipartisan Millennial Housing Commission, appointed by the Congress of the United States, May 20, 2002[1]

Conditions in the home can have profound impacts on the mental and physical health of residents, especially young children.

Housing matters for health. Conditions in the home can have profound impacts on the mental and physical health of residents, especially young children.[2] Common health problems for lower-income families, such as lead poisoning, asthma and injuries from falls, all have roots in the condition of housing.[3] Closely related are issues of nutrition and the ability of families with high-cost housing to afford healthy meals.[4]

Housing also matters for family stability and schooling. Families whose housing is inadequate or subject to rising costs generally confront the need to move into another home. Frequent moves increase stress levels, impede the ability of workers to maintain consistent employment and disrupt children's progress in schools.[5] Studies show that children in stable housing are more likely to stay in the same school district and form broader social support networks, and less likely to engage in negative behavior.[6]

Photo Courtesy of Margaux O'Malley

Housing matters for financial asset-building. Many studies suggest that an important component of economic self-sufficiency is accumulating assets – assets that can be invested for education, starting a business or other purposes.[7] Affordable rental housing allows families to save more of their income for the future. Homeownership facilitates asset-building as mortgage principal is paid down and the value of the home appreciates, especially for lower-income and minority families.[8]

Housing matters for neighborhoods. The quality of a neighborhood is obviously linked to the condition of its housing stock. Efforts to build or revitalize housing can have dramatic effects on a community.[9] As more communities struggle with congestion and the loss of green space, as well as opposition to new housing development, the importance of smart-growth planning practices and revitalizing older neighborhoods is on the rise.

Housing matters for economic development. Housing construction and maintenance represent a substantial portion of any local economy. According to estimates generated by the National Association of Home Builders, building 100 typical single-family homes supports about 284 full-time-equivalent jobs and leads to millions of dollars in wages, tax revenue and ongoing economic activity by the residents of these homes.[10] Moreover, some employers are beginning to realize that affordable housing for their workers is important for attracting and retaining employees, especially in high-cost markets.

Roles for Foundations: What Can Be Done?

Intervening in the housing and community development field can be daunting for any institution. When a single housing unit may cost $100,000, involve complicated financing, take five or more years to complete, or include collaboratives with dozens of members, housing and community development strategies can seem intimidating. However, foundations routinely play critical roles by acting as lead conveners, providing small amounts of support for project planning, leveraging private sources of financing by taking on riskier portions of a project, and providing operating support for community development organizations. Often it is the small but pivotal role of a foundation that allows a project to move from concept to reality. Beyond the development of housing, foundations also provide important support for broader community efforts – organizing residents, facilitating home improvements and supporting programs that help renters become first-time homebuyers. Strategies for foundations in the housing field include the following:

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1. Fund Nonprofit Programs

Foundations can support the research and development efforts required to create innovative approaches tailored to a local community. This work, often directed by a collaborative of community institutions and imple-

Community Giving Resource

CGR is a free resource for donors and small family foundations committed to helping low-income communities and individuals reach their potential. Through an easy-to-use Web site, CGR offers research and guidance to facilitate grants that make a difference in struggling neighborhoods and communities. Topics covered by CGR related to housing include:

- Affordability
- Homelessness
- Homeownership
- Neighborhood bust and boom
- Public housing
- Private rentals
- Public rentals
- Rural housing
- Suburbs, sprawl and smart growth

CGR also helps connect foundations with leading housing organizations and experts in the field. See www.communitygivingresource.org.

mented by expert consultants or academics, can become a platform for new strategies. Foundations can also partner with existing initiatives, providing support for program expansion or ongoing program operations.

- The Wilson Foundation in Rochester, N.Y., invested $2 million (20 percent of its endowment) for Wilson Commencement Park, a holistic transitional housing project for homeless single-parent families. Recognizing the demands on single, low-income parents, the program provides comprehensive support services on-site, including childcare, vocational training and parenting classes. Approximately 700 families per year take advantage of Wilson Commencement Park's programs and services. With this supportive environment, the hope is that participants will exit the homeless system permanently. See www.mcjcwilsonfoundation.org.

2. Form Partnerships

Almost every aspect of affordable housing – from construction and development to managing rental properties and promoting homeownership – requires public- and private-sector partners. Even a small foundation can serve as a catalyst to facilitate dialogue among potential partners, support planning efforts and provide seed money to leverage financial commitments.

- In Massachusetts, a collaborative of private foundations created Home Funders, a pooled fund administered by the Boston Foundation. More than a dozen foundations, as well as state and local governments and local financial institutions, have provided grants or loans to the fund. The fund has a goal of providing at least $26 million in resources to the area to develop 1,000 homes for extremely low-income families earning under $22,000 or 30 percent of the area median income. The fund seeks to integrate families in mixed-income housing, rather than concentrating low-income housing in impoverished areas. The Fund works closely with the public sector and private developers to provide a unique resource for the development of much-needed affordable housing. See www.homefunders.org.

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3. Make Program-Related Investments (PRIs)

An alternative to making a grant to a program is to make a loan or provide an equity investment at below-market rates. Typically these investments attract additional capital from public and private financing sources, thus multiplying the impact of the initial investment. PRIs can provide capital for projects at their initial, more risky stages, while providing a basis for future investments. Because PRI funds are eventually paid back to the foundation, capital can be recycled into new grants or PRIs, thus increasing the impact the foundation can have.

- Since 1983, the John D. and Catherine T. MacArthur Foundation has committed more than $200 million in program-related investments. PRI recipients have returned more than $60 million to the foundation in PRI repayments, along with more than $50 million in PRI earnings. Typically these PRIs are structured as multiyear loans with a 3 percent interest rate. The interest is due at maturity, but the principal can be rolled over into another low-rate loan. Mercy Housing, a nonprofit developer of affordable rental housing, received a $3 million loan to acquire and improve rental properties. Mercy preserved more than 3,000 affordable homes for low-income families and seniors with the investment, leveraging $200 million in other resources. Mercy's preservation of rental units served as a model for a federal demonstration program for nonprofits to acquire expiring use projects. See www.macfound.org.

4. Influence Policy

Research, leadership and advocacy on behalf of affordable housing for low-income families is in short supply. Besides engaging in the public debate about affordable housing, foundations can support the work of advocacy organizations directly. Given their relationships with leaders in the public sector, financial institutions and nonprofit organizations, many foundations may be in unique positions to bring attention to the needs of low-income people in the housing and mortgage markets.

- Seven San Francisco-area foundations formed the Bay Area Inclusionary Housing Initiative to help facilitate the development of affordable housing. This philanthropic collaborative has funded the Non-Profit Housing Association of Northern California (NPH), a nonprofit affordable-housing advocacy group, to help local zoning authorities at the city and county level to adopt inclusionary housing policies. These polices require any new housing development to include a specified number of housing units that are affordable for lower-income families. NPH provides training, networking and policy analysis for local advocates and activists to become more informed and effective at promoting local regulations that encourage more affordable housing. See www.nonprofithousing.org.

5. Fund Public Awareness Campaigns

A strategy related to public policy involves raising the general level of awareness about the need for affordable housing in the community. By supporting public outreach and education efforts, foundations can help turn the tide against NIMBY ("not in my back yard") attitudes. As the public comes to understand the value of affordable housing in the community, programs will be better able to develop housing for working families.

- Funded in part by the Minneapolis Foundation and the McKnight Foundation, Housing Minnesota is a public education advocacy campaign designed to help local residents understand the need for affordable housing in Minnesota. The campaign is supported by a broad coalition of nonprofit agencies, faith-based institutions and community leaders. By raising public awareness, the campaign seeks to reduce barriers to affordable housing and prompt policymakers to become more supportive of housing issues. See www.housingminnesota.org.

For the 29 million households paying more than 30 percent of their income in rent, the ability to afford food, health care, insurance and other important goods and services is reduced.

6. Fund or Conduct Research

A final strategy foundations can employ is to support research on demographic and market trends, housing needs for families in poverty, inequities in homeownership and mortgage markets, land-use patterns and other topics. When the nonprofit sector and public officials are armed with accurate information, they are more likely to avoid misguided strategies and to develop housing projects designed to meet targeted current and future needs.

- The Annie E. Casey Foundation, MacArthur Foundation and Rockefeller Foundation are all funders of Out of Reach, an annual publication by the National Low Income Housing Coalition (NLIHC). NLIHC provides research, education and technical assistance to local, state and national organizations trying to develop solutions to critical housing needs. Out of Reach provides an analysis of wages and rents in every county in the United States, including the income required to afford rental housing (by number of bedrooms). The report also provides the hourly wage a worker must earn to afford a two-bedroom apartment, called the "housing wage." This widely cited report is freely availableonlineandusedbyhousingadvocatesacrossthenation.Seewww.nlihc.org.

In addition to studies on housing policies and markets, there is a strong need for more research about the effect housing can have on schooling outcomes, child health, family mobility and other social issues not commonly recognized as being correlated with housing conditions. Grantmakers in many fields outside of housing can include housing variables in program evaluations, yielding new insights into the interconnectedness of programs.

Developing a Strategy in Housing

Housing programs and policies should provide a balanced menu to address a variety of needs, including housing at a range of prices and a variety of sizes, as well as the ability to provide services integrated into housing as needed.

Background

Figure 1 provides a breakdown of the U.S. housing stock as of 2003 and illuminates some key terms. One distinction is between types of housing units. Confusingly, the term "single-family" housing refers to one-unit homes as well as duplexes, triplexes and four-flats. Traditionally these units had an owner living in one unit with the remaining units rented to others. Today, however, single-family units may be owner-occupied or investor-owned. The term "multifamily" refers to a building with five or more units. Often these are rented units owned by an investor or institution, although multifamily units can be structured as cooperatives or condominiums.

The term "tenure" dates back to medieval times and is defined as being an owner or a renter. Importantly, an owner frequently does not own his or her home outright, but has a mortgage lien against the value of the home and makes regular payments on that loan. Owners might own their housing unit, the land under the unit or some combination. In condominiums, the owner owns the interior of his or her unit, but also pays fees for common areas and shared systems. In cooperatives, the owner owns a share of the property overall, with the right to occupy his or her unit. Manufactured housing, a term that is often misunderstood, is defined legally as a home built in a factory to a national housing code (called the "HUD code") and then installed on site. Manufactured homes built prior to 1976, before the HUD code, are mobile homes, although this distinction is often lost in practice. Manufactured homes may be placed on owned land and treated as single-family, owner-occupied homes, or be placed on leased land and be treated as rental units.

A final distinction has to do with where the home is located. Central city (or inner city) homes are located within the jurisdictional boundaries of the main city of a Metropolitan Statistical Area (MSA). Suburbs are the areas outside that central city that are still inside the MSA boundary. Rural areas are commonly thought of as being the balance of communities, those located outside MSAs. (Some outlying suburban areas are also rural, but have been omitted from Figure 1 for the sake of simplicity.)

The Housing Lifecycle

Perhaps due to the complexity of housing issues, policymakers seem to gravitate toward a common set of strategies as a sort "one size fits all" solution. Clearly, however, diverse housing needs across communities require multiple approaches. Homeownership, rental housing and various forms of af-

Figure 1. Profile of a U.S. Housing Stock, 2003		
	# Units	Percent
All Units	120,777,000	
Occupied Units	117,211,000	97%
Vacant Units	3,566,000	3%
Single Family (1-4 units in structure)	85,499,000	73%
Multi Family (5+ units in structure)	31,712,000	27%
Tenure: Owner	72,238,000	68%
Tenure: Renter	33,604,000	32%
Condominium	4,722,000	4%
Cooperative	558,000	0.5%
Manufactured Housing	6,854,000	6%
Metropolitan Area	93,100,000	79%
Central City	34,986,000	30%
Suburb	58,114,000	50%
Non-Metro (Rural)	24,111,000	21%
Source: 2003 American Housing Survey		

Many urban neighborhoods are struggling relative to their suburban counterparts, especially in housing markets that have not undergone a rapid acceleration in values in the last decade.

fordable housing all have a place within the housing continuum. Housing programs and policies should provide a balanced menu to address a variety of needs, including housing at a range of prices and a variety of sizes, as well as the ability to provide services integrated into housing as needed.

Figure 2 illustrates one framework from the perspective of an individual moving through the housing continuum over his or her lifetime. The housing needs of a young person just leaving his or her parent's home are vastly different from those of the same person four decades later, on the verge of becoming a senior citizen. As people form families, have children and then help their children start their own households, their needs change. As people move and migrate, the mix of household types in a community shifts. Likewise, as immigration increases, demand for housing rises to meet immigrant groups' particular needs. As a result, housing policies need to provide a balance of services, for renters and owners, over the course of the housing lifecycle.

Figure 2. The Housing Lifecycle					
	New Households	New Family Households	EstablishedFamily Households	Empty Nest Households	Seniors
Status	Under 30; single	25-40; young children	35-55; school-age children	55-75; no children at home	65+;couples or singles
Typical Tenure	Renter	Renter / first-time owner	Owner	Owner / renter	Owner / renter
Special Needs	Affordability; proximity to work or school	Affordability; amenities for children; safety	Proximity to quality schools; sufficient space	Reduction in space demands; accessibility	Accessibility; proximity to services

While housing quality in rural communities has improved dramatically in recent years, more than 700,000 rural houses are defined as "worst case needs" by HUD.

Location: Urban, Suburban and Rural

The old adage among real estate professionals is that the three most important features of a home are "location, location and location." Location clearly is not everything, but when designing housing strategies it is very important to analyze how a particular housing development or program will fit into the local market. One of the most important factors to consider is the cost of land. The cost of constructing or rehabilitating housing varies across communities, but not nearly to the extent that land values vary. In some high-cost areas, the value of all structures and improvements on a property are negligible relative to the land value. In these areas, properties will be purchased, the existing home torn down and a new home built on the lot. In markets where buildable land is scarce, the cost of housing is much higher than in areas with an ample supply of land.

Even within an otherwise tight housing market, some individual locations command premium prices, even controlling for size, quality and amenities. And the dynamics of the housing market can change relatively rapidly. For example, many inner city neighborhoods two decades ago were defined as low-income and experienced stagnant or declining housing values. Today, many of these markets are viewed as relative bargains in the housing market, with buyers bidding up real estate values and rents. Still, many urban neighborhoods are struggling relative to their suburban counterparts, especially in housing markets that have not undergone a rapid acceleration in values in the last decade.

In high-cost areas, however, it is precisely the opposite. Housing on the fringe of MSAs can be among the most affordable, at least in terms of rents or purchase price. Nevertheless, households attracted to the relative affordability of these outer suburban markets may pay the price in commuting costs. Travel time and costs can absorb much of the savings gained by moving farther from the urban core.

Beyond the suburban fringe are homes in rural areas. Land there is typically not a significant cost of housing relative to the structure, although it can be in some high-demand markets. The cost of developing infrastructure is often higher than in urban or suburban locations, sometimes resulting in development costs that exceed appraised values and making bank financing challenging. Many rural communities are actually losing population as agricultural and natural resource industries have consolidated. Elderly, lower-income and less-educated residents are among the least likely to leave rural areas, while working-age families with skills that are in demand are among the most likely to migrate to urban areas.

Despite affordable housing and natural amenities, many rural housing markets are struggling. While housing quality in rural communities has improved dramatically in recent years, more than 700,000 rural houses are defined as "worst case needs" by HUD. Some rural small towns have been buoyed by tourism and the advent of technology-aided jobs, where proximity to an urban center is not important. Unfortunately, others remain impoverished. Since 1960, 363 rural counties have had persistent poverty rates above 20 percent of the population. Community development in rural areas represents a broader challenge than simply building or preserving housing; it also includes building capacity to deliver services, community organizing, and collaborating with educational and economic development institutions. [11]

The Affordability Challenge

According to an analysis of the 2001 American Housing Survey by the Low Income Housing Coalition, there are 95 million people – about one-third of the U.S. population – living in cost-burdened, low-quality, overcrowded housing. The majority of these are low-income people, one-third of them children. The most frequent problem they face is paying a large share of income for housing. The federally defined standard for being "housing cost burdened" is paying more than 30 percent of income, although many families pay much more. In fact, in 2001 more than 14 million people paid more than 50 percent of their income for housing. By comparison, the average across all households is to spend only 20 percent of income on housing. Overcrowding and poor housing conditions still exist, though they have improved dramatically in the last few decades.[12]

Out of approximately 108 million households in the U.S. in 2003, 31 percent paid more than 30 percent of their income for housing.[13] But more than two-thirds of low-income households pay this much or more, and the majority (51 percent) of low-income renters pay more than half of their income for housing. Affordability problems are becoming more acute, given the robust housing market in the first five years of the 21st century. The number of "cost-burdened" households increased by 17 percent from 2000 to 2003. Notably, costs have increased fastest among middle-income households.

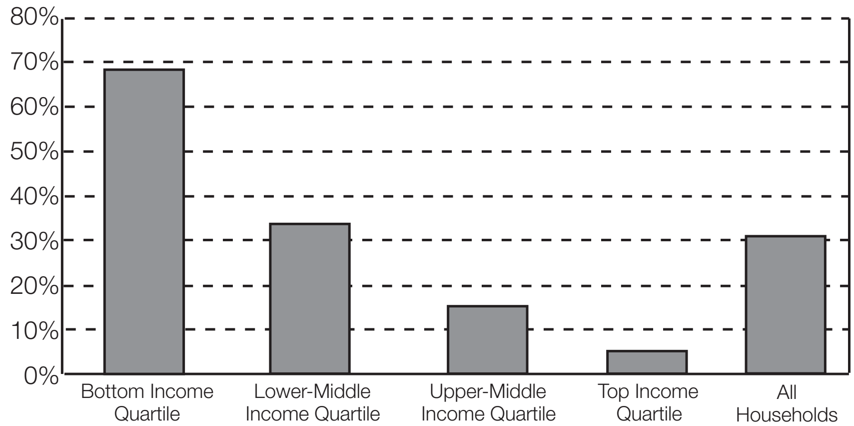
For the 29 million households paying more than 30 percent of their income in rent, the ability to afford food, health care, insurance and other important goods and services is reduced. Often finding housing means moving farther from employment centers, thus lengthening commute times and raising transportation costs. There is also more pressure to crowd into homes when housing costs are high. On top of everything are the emotional and physical stressors that come from paying increasing shares of income for housing.

Figure 4 illustrates the wage needed to pay for an affordable rental housing

The Housing Assistance Council (HAC) helps local organizations operate housing programs. One program HAC uses is Mutual Self-Help Housing to help very-low- and low-income households construct their own homes. Families perform approximately 65 percent of the construction labor on each other's homes under qualified supervision. The savings from the reduction in labor costs allows otherwise ineligible families to afford their own homes. HAC has provided over $68.3 million to support the production of more than 6,000 self-help units in rural communities across the country. See: www.rural.org

Photo courtesy of Neighbor Works

Figure 3. Percent of Households Paying More than 30% of Income for Housing by Income Group



Source: State of the Nation's Housing, Joint Center for Housing Studies of Harvard University, 2005

unit by county. A minimum wage salary is insufficient to afford rents in any location. Some of the most serious problems occur in high-cost markets in California and the Northeast, where a wage more than four times the minimum wage is required to afford rental housing. However, affordability is not just a "bicoastal" issue. A growing number of counties in the Midwest, South and West are also facing affordable housing challenges.

The lagging ownership rates of minority and low-income families are disturbing. Nationally, only 49 percent of the lowest income households live in owner-occupied homes, as opposed to 68 percent of all households, and 91 percent of the highest income group. Likewise, minority homeownership rates are 20 percentage points below the national average (Figure 1). While these gaps in homeownership rates strike many observers as inequitable, differences in household type and age, location, income, education, mobility and immigration status frequently explain variations among homeownership rates. But there are substantial gaps in homeownership attainment between races even when controlling for marriage, central-city location, age and education. While homeownership rates overall have risen since 1978, rates for working families with children have declined from 62.5 percent to 56.6 percent (Center for Housing Policy, May 2004). Rates for single parents, especially female-heads of household, are 20 points lower than the ownership rate for all households. Single-earner households have less income to support buying a home; thus, since this type of family is increasing, and ownership holds such significant potential benefits for children, there are

The Annie E. Casey Foundation has supported the First Nations Development, a nonprofit organization working with Native communities to create and retain wealth, to create a guidebook for Native communities to claim the Earned Income Tax Credit (EITC). By making use of this provision of the tax code, families can obtain larger tax refunds that can be invested in housing, homeownership, education or other activities that improve the lives of children and families. See: www.aecf.org.

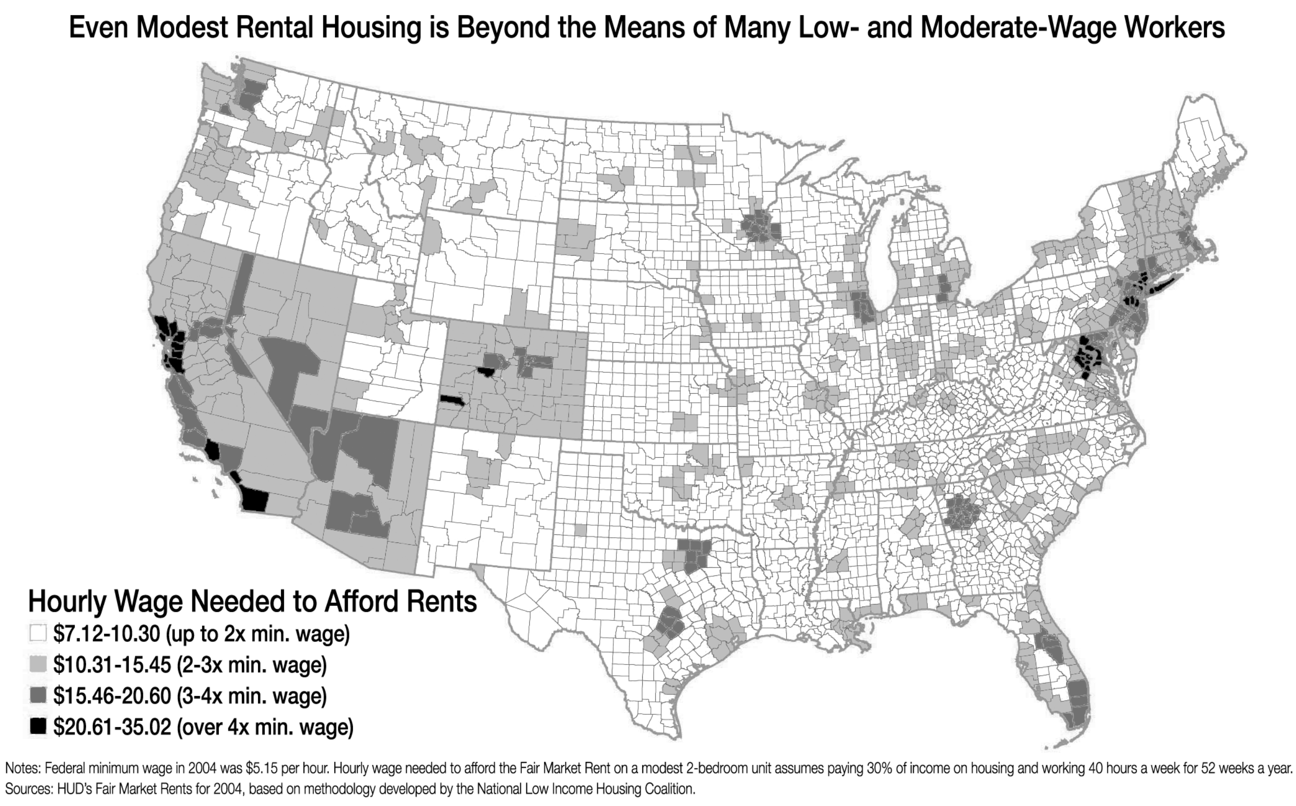
good reasons why single parents should receive support for ownership.

These gaps by family type, race, and income present definite challenges. Because homes are the largest asset most lower-income households have, and ownership is a traditional, practical way for underserved households to access capital and establish a stable family, these stubborn discrepancies in rates are cause for public-policy and programmatic interventions. But to craft such interventions, barriers to homeownership need to be examined further.

The Production Challenge

Producing a single home is an expensive proposition, even in ideal circumstances. Acquiring land and approvals is time-consuming and costly. Land often needs infrastructure, such as paving, drainage and utilities. Then there are significant costs for materials, capital equipment and labor. Given the minimum standard requirements for materials, lot size and structural design, it is difficult to produce a new home that a low-income family can afford. And when communities actively oppose new construction – the so-called NIMBY problem – the costs of developing housing are even harder to overcome. While some of the unskilled labor used to produce a home can be donated, as well as a portion of materials, these costs are still a fraction of the overall cost of producing a home. Thus subsidies play an important role in facilitating the production

Figure 4. Hourly Wage Required to Afford an Apartment at Fair Market Rents



Source: Joint Center for Housing Studies, State of the Nation's Housing 2005. Reprinted with Permission of affordable multi- and single-family units for rental or ownership. Producing affordable housing can force difficult tradeoffs regarding the location and quality of housing at a given price level. Often the areas with the highest growth in population and employment opportunities are the least likely to invest in affordable housing.

What prevents the production of affordable housing units? There are at least four leading factors. First, restrictive zoning and land-use practices and overly stringent housing codes result in a reduction in the number of housing units produced, which in turn drives up prices and rents. Such policies and regulations are intended to promote safe and livable communities, of course, but they make affordable housing more difficult to produce.

Secondly, there is not enough subsidy available from the public sector to offset the costs of these regulations. Subsidy for developing affordable housing is scarce; there simply is not enough available to produce affordable housing at a scale needed to relieve cost-burdened households. Direct subsidy for the acquisition and construction of housing is lacking, as well as below-market financing tools that can be adapted to the risks and long time periods required for developing affordable housing.

The third barrier is simply the cost of land, materials and labor. Given the fixed costs involved in developing housing – legal, planning, architectural and the rest – developers have a strong incentive to build larger housing units with more amenities as long as consumers will compensate them for these additional costs.

The last barrier is community opposition. Even in otherwise progressive communities, residents tend to view affordable housing negatively. They fear that these homes will devalue their own properties, bring in undesirable residents, or contribute to increased police, education and other community-service costs. Some communities have begun to confront these negative stereotypes, realizing the value of having a continuum of housing.

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The Preservation Challenge

Given the challenges of producing new affordable housing, it is often more efficient to extend the life of existing housing rather than build new. Preservation of affordable housing is critical for both homeownership and rental programs, although the issues involved are different in each case.

Affordable rental housing units developed under subsidy programs such as project-based Section 8, RHS Rural Rental Housing or Low-Income Housing Tax Credits were established with a limited period in which affordability must be maintained. At the end of that period, property owners have the option to rent units at market levels. In many cases, properties at the end of their affordability period also require substantial improvements. Owners contemplating such an

> The goal of the S. H. Cowell Foundation is to improve the quality of life of children and families living in poverty in Northern California. The foundation funded the Pescadero Affordable Housing Project to create and implement a plan for increased affordable housing. The project includes outreach to build public support for affordable housing, including community workshops. The project led to the creation of “Smartcode” to permit in-fill affordable housing and overcome waste water problems. It also created an engineering plan to eliminate flooding hazards on a local creek, opening an area to affordable housing development. See: http://www.shcowell.org.

The John D. and Catherine T. MacArthur Foundation has committed to a 10-year, $50 million effort to promote the preservation of affordable housing. The effort includes grants and below-market-rate loans for nonprofit owners of rental housing and the intermediaries that finance housing. As many as 100,000 units will be financed or renovated to preserve them for low- and moderate-income households. The effort also includes grants for policy research and public advocacy on the preservation of affordable rental housing in urban, suburban and rural markets. See: www.macfound.org.

investment may find that the only way to justify improvements economically is to raise rents or convert the building into condominiums. Socially motivated property owners, such as nonprofits, can take over these "expiring use" properties, obtain public subsidies and grants, and continue to offer units at affordable rents. But some owners prefer to convert properties to market-rate rents, especially units located in desirable areas or neighborhoods where property values are increasing.

Another aspect of preservation in rental housing is related not to "expiring use" subsidized properties, but to the millions of unsubsidized rental units in the United States. Again, there is pressure to raise rents for these units, unless a nonprofit owner can take possession and maintain the property at affordable levels.

When it comes to homeownership, preservation has two implications. Like rental units, owner-occupied units need upgrading as they age. A large portion of affordable owner-occupied homes were built in the 1950s and 1960s and now require investments to remain viable housing. Preserving these "starter homes" provides an important homeownership opportunity for lower-income first-time buyers. Affordable units often are occupied by elderly people who lack the resources to fully maintain properties. In addition, elderly occupants may need accessibility improvements that can allow them to stay in their homes.

The second implication of preservation for owner-occupied housing concerns not the housing unit, but the financial situation of the owner. Many individual homeowners need help if they are to avoid losing their homes due to foreclosure. Rising interest rates, property taxes and maintenance costs can force an owner to make difficult tradeoffs. Foreclosure rates for all loans increased by nearly 40 percent from 1994 to 2004.[15] In some communities – especially low-income, minority neighborhoods – foreclosure rates are as high as 10 percent of all homes.[16] The leading cause of mortgage defaults is loss of employment, followed by health crisis and mismanaging credit and/or spending. Lenders frequently are willing to work out alternatives to foreclosure, including reducing interest rates or restruc-

The Homeownership Preservation Foundation, founded by GMAC-RFC, a large national mortgage lender, supports the Credit Counseling Resource Center (CCRC), a collaborative of four nonprofit counseling agencies providing mortgage default counseling. The foundation has partnered with mayors in several cities to promote a toll-free hotline for borrowers falling behind on their mortgages. In Chicago, the Foundation supports NHS Chicago's HomeOwnership Preservation Initiative (HOPI) "Every Minute Counts" campaign, a public outreach effort including advertisements on subways and bus lines. For more information see: www.hpfonline.com.

turing loan terms. However, most borrowers in foreclosure avoid their lender and are not offered such alternatives. More and more, lenders and nonprofit counseling agencies are working collaboratively to increase awareness of alternative programs.

Disparities in Homeownership

Homeownership is frequently referred to as part of the "American Dream." Homeownership's benefits flow to families in the form of asset accumulation It supports the health and well-being of children. Ownership is also associated with broader social impacts, including neighborhood revitalization.

Although homeownership can play a significant role in asset- and community-building for families and neighborhoods, homeownership opportunities are not evenly distributed by race, income or location. Nationally, only 49 percent of the lowest-income households live in owner-occupied homes, compared to 68 percent of all households and 91 percent of the highest-income group. There are also substantial gaps in homeownership attainment between races, even controlling for marriage, central-city location, age and education. The homeownership rate for minorities is 20 percentage points below the national average. While the homeownership rate overall has risen since 1978, for working families with children the rate has declined from 63 percent to 57 percent.[17] While these discrepancies in homeownership rates strike many observers as inequitable, differences in household type, age, location, income, education, mobility and immigration status will likely always result in variations among homeownership rates.

Providing services connected to housing is an essential complement to providing shelter.

There are a number of barriers that prevent deserving families from owning their own homes, including inadequate income and savings, poor credit, a lack of information, and a general shortage of decent affordable homes available to purchase. Homeownership strategies typically involve a partnership with a financial institution, many of which face regulatory pressures to provide loans to underserved borrowers. But beyond access to credit, overcoming the disparities in homeownership attainment involves outreach and education, support for saving and financial planning, and the development or rehabilitation of affordable homes.

Homelessness

An estimated 3.5 million people in the U.S. are homeless at some point in each year, and 800,000 people are homeless on any given day, including about 200,000 children in homeless families.[18] The Stewart B. McKinney Homeless Assistance Act of 1987 provides federal support for emergency shelters. Beyond providing beds, some programs also attempt to prevent homelessness by helping with temporary assistance for rent or utility payments, or legal advocacy to prevent evictions.

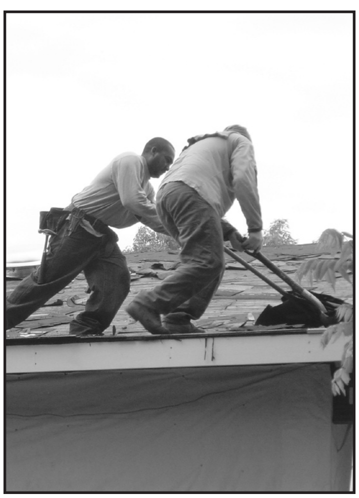

Photo courtesy of Margaux O'Malley

The MetLife Foundation has provided a number of grants to NeighborWorks America and its affiliates to promote outreach, education and counseling for first-time homebuyers. In particular, efforts have focused on Latino families and providing education materials in Spanish, as well as building the capacity of community-based counselors to help families overcome information barriers to homeownership. For more information see: www.nw.org.

The San Francisco Foundation has been a leader among community foundations in ending homelessness. The foundation has provided direct operating support to First Place Fund for Youth, a local nonprofit organization. As children reach the age at which they no longer qualify for foster care, they face a difficult transition to independent living. In California almost two-thirds of foster children who age out of foster care become homeless. First Place Fund for Youth in Oakland helps young people (age 17 to 21) transition from foster care into their own households. Its supportive services, employment assistance and life-skills training help youth become self-sufficient without becoming homeless. See www.firstplacefund.org.

Dealing with homelessness involves a broad array of strategies, including collaborations with social services. In fact, providing services connected to housing is an essential complement to providing shelter. Nearly three out of four adult homeless people have mental health, alcohol and/or drug problems. For them, shelter or temporary housing is only a partial solution. Their mental health and substance abuse problems must also be treated to address some of the root causes of homelessness. Treatment services can be integrated into longer-term supportive housing, with the goal of helping the client become self-sufficient. Supportive housing can be designed to help parents deal with their crisis and move toward self-sufficiency, while also providing health, education and mental health services to children and youth.

- The Corporation for Supportive Housing is a national intermediary dedicated to building the capacity of supportive housing providers nationally. CSH was established in 1991 with funding from three leading foundations: the Pew Charitable Trusts, the Robert Wood Johnson Foundation and the Ford Foundation. Since that time CSH has grown substantially. By providing project-specific technical assistance along with grants and loans at the local level, CSH has helped develop more than 15,000 supportive housing units. CHS also advocates for public policies that address homelessness, as well as education, research and other efforts to promote sustainable supportive housing. See www.csh.org.
- The Melville Charitable Trust has set its sights on finding and fighting the causes of homelessness. It supports service and housing programs in Connecticut that serve as models throughout the country, and is a national leader in funding research and advocacy on homelessness. The trust has invested more than $40 million over the last decade in programs that help formerly homeless people to achieve self-sufficiency. See www.melvilletrust.org.

While these discrepancies in homeownership rates strike many observers as inequitable, differences in household type, age, location, income, education, mobility and immigration status will likely always result in variations among homeownership rates.

Proven Approaches for Foundations

There are a number of strategies that have become more widely used in the last decade. In some cases these strategies represent reversals of failed approaches used in the past; others are based on recent advances in social science research. While not universally employed, the following strategies are among the better practices included in housing policies and projects today.

Manufactured Housing

Manufactured homes make up the majority of owner-occupied homes affordable to low-income families. Manufactured homes are built in accordance with the National Manufactured Housing Construction and Safety Standards, commonly called the "HUD Code." This is the only national housing code, and pre-empts local housing codes. (Although the term "mobile home" is still used, technically and by legislation, homes built to the HUD code are called "manufactured homes.")

Frequently manufactured homes provide savings of 20 percent or more compared with the cost of site-built homes. Since the mid-1990s, the quality, design and development of manufactured homes has improved, so much so many new developments are indistinguishable from site-built homes nearby.

A manufactured home on owned land can be financed with a mortgage loan, provided it is adequately installed and meets basic property standards. Manufactured homes on leased land, or homes financed separately from the real estate on which it is sited, do not qualify for a traditional mortgage. These "chattel" loans carry increased rates and fees, and through the 1990s were marked by poor loan underwriting.

Neighborhoods with a mix of housing types see property values appreciate at greater rates than even affluent single-family areas.

Mixed-Income Housing

Most major affordable housing developments have followed a model of deconcentrating low-income families. For example, the federal HOPE VI public housing renovation program often introduces market-rate (or near-market-rate) units into a development. Affordable rental properties often will offer a portion of units at very-low-income rents, others at modest rents and the remainder at market rates.

The same approach applies in single-family housing. The idea that affordable housing has a negative impact on property values is not based on empirical evidence. Research suggests affordable housing projects have no negative effect on nearby property values. In fact, "working-family" neighborhoods are positively associated with stable or rising home values and rents. Neighborhoods with a mix of housing types see property values appreciate at greater rates than even affluent single-family areas.[19] Foundations can support mixed-income strategies through operating grants to nonprofits for planning and predevelopment, working capital grants and PRIs for project financing. Not all funders can be as flexible on income guidelines as most foundations can be when supporting mixed-income housing. Many public grant monies have strict income limits that hamper mixed-income approaches.

- There are many examples of successful mixed-income projects nationally. A leading organization in mixed-income housing is The Community Builders, Inc. Community Builders has played a large role in transforming public housing through the HOPE VI program, developing skills and knowledge that can help other projects be more successful. The Ford Foundation funded Community Builders to share its knowledge of mixed-income housing development by creating a practitioner's guide for economically integrated, socially diverse housing. The Mixed-Income/Mixed-Race (MI/MR) Housing Initiative shares ideas and resources with affordable housing developers, community leaders and policy makers. See www.tcbinc.org/what_we_do/ci_practice_tools.htm.

Mixed-Use Developments

Mixed-use housing has a long history in cities and small towns. In its simplest form, it is a row house with a retail store on the ground level and housing units above. On a larger scale, it is a mixed office, retail and housing project. Because these types of properties diverge from the standard models of single-family homes and stand-alone, multifamily apartments, they are less well understood. Finding financing, insurance and services for such buildings can be challenging. However, mixed-use properties are often the anchors of downtowns and neighborhood centers. Supporting these properties can be a key component of revitalization efforts. Foundations can support mixed-use strategies through community planning research, facilitating partnerships, providing operating grants and making flexible PRIs to finance development. Like mixed-income developments, mixed-use developments are often hamstrung by inflexible funding sources. Funding that is not tied to residential or commercial uses is central to the successful development of mixed-use projects.

- The East Bay Asian Local Development Corporation (EBALDC) has developed more than 900 units of affordable housing for rental and ownership and 230,000 square feet of space for small businesses and community organizations since it was founded more than 30 years ago. One of its recent projects that includes multiple uses is the Swan's Market development. This project combines mixed-income housing (including condominiums), a Museum of Children's Art, restaurants, retail stores, a grocery store and office space. The housing units even include a "cohousing" design, combining the autonomy of private dwellings with extensive shared common facilities, such as a dining hall, playrooms, workshops, guest rooms and laundry facilities. Swan's Market has been recognized widely, and received an award from the Bruner Foundation. For more information see http://www.swansmarket.com/.

Housing Trust Funds

More than 350 states and localities have developed "housing trust funds" – a dedicated stream of funding for developing affordable housing for rental and ownership.[20] Typical sources of funding include real estate transfer taxes, linkage fees, interest from government loans, developer fees and tourism taxes. With a dedicated income source, trust funds are less susceptible to economic downturns or changes in the political winds. While there have been

Small Grants Can Leverage Large Public Dollars

The Butler Family Fund, with a focus on ending homelessness, has been investing in housing trust fund campaigns around the country as a means of increasing the amount of public funding available for developing low-income housing. The Butler Family Fund made two one-year grants of $20,000 and $25,000 to the Philadelphia Association of Community Development Corporations to spearhead the Philadelphia Housing Trust Fund Campaign. Many nonprofits played critical roles in this campaign as well. The two grants from the Butler Family Fund helped leverage about $145,000 in other support for the campaign, which resulted in a new dedicated public funding source for affordable housing in the city of Philadelphia of approximately $15 million per year.

Photo courtesy of Margaux O'Malley.

The Rochester Foundation in Minnesota funded First Homes in partnership with the Mayo Clinic, a leading medical institution that was finding its employees could not find affordable housing. The foundation created a subsidiary called First Homes, funded partially by the Mayo Clinic and matching grants, which leveraged a total of $13 million for affordable housing. Many First Homes units are developed using a land trust, and the foundation keeps the land on its balance sheet as an asset, thus preserving affordability over time. First Homes also offers gap financing loans of $7,500 per buyer (for any home) at a 2 percent simple interest rate paid back at time of sale. Land trust buyers can get a $15,000 gap loan with no interest, and affordable rental property developers can access below-market capital for financing new construction. The goal is to support 875 affordable housing units. See: http://www.firsthomes.org/.

repeated calls for a national housing trust fund, funds created and operated at the state and local level are currently among the most effective tools for affordable housing. Trust funds can be used for developing or preserving affordable housing. Although foundations can seed a trust fund with grants or matching funds, the goal of a trust fund is to obtain a sustainable dedicated revenue source. Foundations can support trusts funds through operating grants to nonprofits for policy advocacy and community outreach, and by facilitating collaborations of community organizations.

- The Center for Community Change promotes the creation of housing trusts with outreach, training and technical assistance through its Housing Trust Fund Project, supported by a collaborative of funders, including the Fannie Mae Foundation. The project operates as a clearinghouse of information on the many housing trust fund initiatives across the country, and offers assistance to local groups creating trust funds. See www.communitychange.org/issues/housing/trustfundproject.

Cooperative Housing

A housing cooperative is owned and controlled by a corporation in which residents (or members) buy shares. The cooperative owns the building, land and any common areas. Members pay monthly carrying charges to cover operating expenses. Typically used for multifamily buildings, the majority of co-ops are located in New York City. While the Manhattan co-op is associated with restrictive rules protecting the wealthy from undesirable neighbors, cooperatives are also a very effective tool to support low-income homeownership. In addition to low-cost, market-rate cooperatives, there are also limited-equity co-ops that place restrictions on resale to make them affordable for succeeding generations of purchasers. Restrictions can be based on income, sale prices of shares or some combination. Thus a cooperative can provide long-term affordable homeownership opportunities. Cooperatives also offer shared maintenance costs, alleviating the risk of large expenses for roof replacement or other repairs.

Grant and loan programs often neglect to incorporate cooperative housing into their guidelines. Foundations can support cooperatives through direct operating grants, working capital grants, and PRIs for project financing.

- NCB Development Corporation's "Together We Can" (TWC) initiative promotes cooperatives to preserve affordable housing and create homeownership opportunities for low- to moderate-income families. Funded by the Surdna,

Photo courtesy of NeighborWorks.

Ford and Fannie Mae Foundations, the project has a goal of creating 1,635 affordable cooperative housing units in five years. TWC works to overcome unfamiliarity with the co-op model among developers and to increase loans for co-op start-up and share financing. An important component of the program is to make the case for co-ops with leaders in the field of housing policy and development. One model developed under the program is the Capital Manor Cooperative in Washington, D.C. In 2000, tenants learned their building was up for sale. Faced with the prospect that the property would be sold to a private developer and turned into more upscale apartments, residents sought help from local nonprofits to explore a co-op model. Today the project is a model for successful co-ops nationally. For information see: http://www.ncbdc.org/.

Community Land Trusts

Community land trusts separate the ownership of land and housing. While individual houses are privately owned, the land under the homes is held permanently by the trust and leased to homeowners through a long-term renewable lease (usually for 99 years). If a resident decides to move out of the home, the land lease requires that the home be sold either back to the trust or to another low-income household for a price determined by a formula. Homeowners keep part of any gain on the value of their housing, but not the same level as on the fee-simple market. Community land trusts therefore create a pool of permanently affordable owner-occupied housing for the future, combating gentrification or building community control in disinvested neighborhoods.

In high-cost markets, land trusts are growing in popularity as an affordable homeownership option. Land trusts also allow local governments to retain subsidies for homeownership at the city level as an asset for successive generations of homebuyers. Foundations can support land trusts by providing them with grants for planning, development or operations, as well as direct development or ownership of the land held in the trust.

- One of more successful model is the Burlington (Vermont) Community Land Trust, or BCLT. Established in 1984 to produce and preserve affordable housing, the BCLT now has more than 500 units of housing and more than 2,500 members. Through its land stewardship, BCLT ensures that these proper-

Community land trusts therefore create a pool of permanently affordable owner-occupied housing for the future, combating gentrification or building community control in disinvested neighborhoods.

The Importance of Assets

Michael Sherraden, in Assets and the Poor: A New American Welfare Policy (1991), was among the leaders of a movement to examine asset-based welfare policies instead of income subsidies. He noted that most low-income households have close to zero savings or net wealth, and that most programs and policies discourage or prevent low-income families from saving. Further examinations of asset ownership by race show growing disparities and highlight the key role of homeownership in creating wealth that can be leveraged and inherited. Through asset-building strategies, low-income families can have a financial stake in society, providing a platform for risk-taking and independence, and passing wealth on to future generations. Recent research suggests inequities in asset ownership are perpetuating economic disparities between races, and specifically disadvantaging African-American families (Shapiro 2003).

The Sacramento Valley Organizing Community (SVOC) is a collaborative of religious congregations, community groups and labor unions, and an affiliate of the Industrial Areas Foundation (IAF). Funded by a number of regional and national foundations, SVOC has organized to acquire resources needed to develop housing projects. Recently SVOC has worked with the Sacramento public housing authority to allow low-income people to purchase homes with Section 8 vouchers for the first time in this community. See www.citizenship.net/partners/svoc.

ties will remain affordable, not just for the first residents but for all residents thereafter. BCLT has been widely recognized, winning awards and grants from many major funders, including the W. B. Heron Foundation and the Ford Foundation. For more information see http://www.bclt.net/.

In most communities, public housing agencies are the one institution with a long-term commitment to affordable housing and access to substantial federal subsidies.

Asset-Building

The most notable benefit of homeownership is asset accumulation. The median wealth of homeowners is 36 times that of renters, and more than half of the assets of owner households are stored as home equity.[21] For many families, the home serves as a form of forced saving in the form of regular mortgage payments, in addition to any appreciation in house value. Many families use home equity loans or lines of credit to fund special purchases, higher education or small business ventures. In retirement, after the mortgage is paid off, housing costs are reduced to maintenance, insurance and taxes. Of course, house prices are not guaranteed to rise, and buyers must pay fees that reduce gains from selling a house. Moreover, many homeowners borrow repeatedly against their home equity, converting it into current consumption. But for many families in recent years, homeownership has created significant wealth.

Assets can be accumulated outside of homeownership as well. To the extent that renters can be supported in setting aside a portion of their income for savings and investment, over time they too can accumulate financial assets—liquid assets that in some ways may be more desirable because they are unencumbered by a mortgage. The key is adequate support to keep saving and investing wisely. Some rental housing programs include a mechanism to provide matches for savings funds, called Individual Development Accounts (IDAs). Under the Section 8 Housing Choice Voucher program, when a tenant increases his or her income, the amount of subsidy received is reduced so they continue to pay 30 percent of their income for rent. Under the federal Family Self Sufficiency program, instead of cutting the subsidy, an equivalent amount is deposited in an escrow account available for education, homeownership or starting a small business.

Foundations can support asset accumulation in a number of ways, including capitalizing loan funds, supporting IDAs and small business development programs integrated into rental housing, and supporting homeownership programs.

Informing Consumer Choice

As they do with other goods and services, people have choices in the housing marketplace. When making such important decisions, they require information. The advice and counsel of someone with experience is extremely valuable for a tenant looking for an apartment, a first-time buyer, or a senior seeking home improvements. Housing counseling, outreach and education have been available in various forms since the 1960s. Funded in part by the federal government, state agencies and financial institutions, counseling is used not just to help families find housing, but to work out problems with landlords, lenders or local government. Training sessions can also help prospective buyers better assess the home they are about to purchase and critically evaluate the mortgage loan they have been offered. Support for homebuyer education comes predominantly from financial institutions and federal grants. But most nonprofits struggle to provide high-quality homebuyer education services without additional support. Foundations can support homebuyer counseling through direct operating grants to nonprofits and by funding pools of funds for homeownership promotion.

- The Paul G. Allen Family Foundation funded Neighborhood Housing Services (NHS) Inc. in Boise, Idaho. The NHS board is a partnership of residents, private business leaders and government officials. NHS promotes homeownership through counseling and affordable mortgage lending throughout the state, including loans funded by its community development financial institution (CDFI) fund. All NHS borrowers are required to attend homebuyer education classes and receive counseling before and after purchasing a home. NHS has developed nearly 300 homes, financed more than $32 million in mortgages and counseled or educated more than 6,000 potential homebuyers. See: http://www.boisenhs.org.

Working with Public Housing Agencies

In most communities, public housing agencies are the one institution with a long-term commitment to affordable housing and access to substantial federal subsidies. PHAs have unique powers, including the ability to issue bonds and enter into development agreements. Too often, PHAs are viewed as stodgy old bureaucracies. But many PHAs have undergone dramatic transformations in recent years, and can be vital partners to an affordable housing initiative. PHAs have community-based leadership, local governing boards and access to national technical expertise. PHAs also have existing mechanisms for community input and involvement. Foundations can support collaborations with PHAs through grants to nonprofits, PRIs for project financing and by facilitating public-private partnerships.

Implementing Strategies

Collaboration

Affordable housing involves developing comprehensive strategies that bridge the public, private and nonprofit sectors. It can involve broader social and community development services. Despite the time and energy involved in creating collaborative efforts, comprehensive strategies have the potential to have great impact. Public-private partnerships are often a key component of collaborations. The public sector provides subsidies and access to programs, while private developers and lenders provide capital and implementation. It is not unusual to have a dozen or more partners in a project:

- City government - land acquisition, planning and grants
- County/state government - financing and/or tax credits
- Private lending institution - mortgage loan for project
- Private construction firm(s)—management of building tasks
- Nonprofit community-based organization - facilitation/management

and ownership
- Foundations, corporations and other supporters - equity grants or low-cost loans
- Consultants and intermediaries - project planning, access to national expertise, serving as conduits for loans or tax credits to investors

Funding Community-Based Organizations

It is common for affordable housing projects to include participation from community-based nonprofit organizations. These entities have more flexibility than city governments in developing a project, as well as the ability to access financing tools such as tax credits and special mortgages. Community-based organizations also have greater community involvement, providing advantages in negotiating with residents and overcoming opposition. Nonprofit organizations have varying capacity, however. Some established community development organizations are among the most efficient, high-quality housing developers in the nation. Other nonprofits struggle with inexperienced boards, a lack of technical expertise and insufficient financial resources. There are many programs designed to build the capacity of nonprofits for this work, including board training, staff training and accreditation, and financial support. Enterprise, the Local Initiatives Support Corporation (LISC), NeighborWorks® America and the Housing Partnership Network are examples of national intermediaries that work closely with nonprofit organizations to build their technical, management and financial capacity.

- The Ford Foundation focuses on building assets for low-income families. One of its strategies is to promote homeownership. In 2003 Ford made a $100,000 grant to provide technical assistance and business development to nonprofits that are part of the Housing Partnership Network (HPN) so they could become mortgage brokers. The goal of this pilot program is to create successful models nonprofits can use to compete with, and ultimately supplant, unscrupulous and predatory lenders. Using HPN as a national intermediary, nonprofits can potentially create a sustainable business model for homeownership programs. See: http://www.housingpartnership.net/.

Community Organizing

Housing developments can become a mechanism for introducing other services to a community. The design of multifamily rental projects can include learning centers, employment assistance or access to technology. Homeownership projects can include infrastructure improvements and efforts to improve schools and parks. There are many innovative examples of housing projects that integrate access to technology, human services, education and employment assistance. For example, The Community Builders, Inc., is a well established, nonprofit affordable housing developer that offers services to help tenants

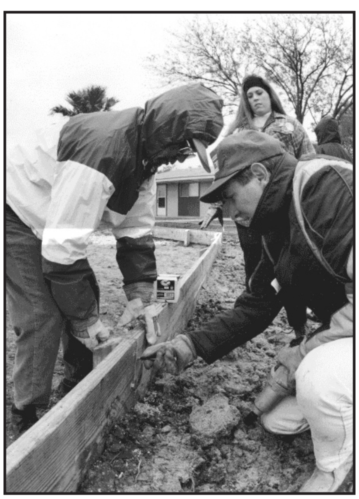

Photo courtesy of NeighborWorks.

> The Massachusetts Housing Partnership is an example of a public-private collaboration. This is a statewide organization that works in concert with the state and local governments to help create more affordable housing. MHP is partially funded with the proceeds of mergers and acquisitions among banking institutions in the state. MHP has helped create more than 100 housing partnerships in local cities and towns since 1985, including facilitating the use of public land for affordable housing and meeting regulations for inclusionary zoning in suburban locations. See www.mhp.net.

in affordable rental housing gain access to support programs and job training. Serving the multiple needs of families makes the housing project stronger and increases the ability of residents to become more self-sufficient.

Of course, conditions in a neighborhood can also be affected through advocacy and leadership, even without directly building any housing. Community organizing has long been the hallmark of neighborhood improvement, with the goal of gaining the attention of property owners, government and businesses through the collective actions of residents. Many community-based housing organizations began with the efforts of a handful of community leaders committed to a neighborhood. Community organizing is challenging, and there is no single, tried-and-true model for creating a successful organization. Still, community organizing can be an important complement to housing development.[22]

Influencing Public Opinion

As previously discussed, NIMBY-ism can be a major barrier to affordable housing. Opposition to affordable housing is rooted in a myopic view that affordable housing undermines property values or increases taxes. Of course, these rationales also may cover deep-seated racial or class-based intolerance. Yet communities need a variety of housing, including affordable housing. Without a place for low-wage workers to live, a community will find itself short of service workers, childcare workers, medical aides, police, firefighters and other critical personnel. Extreme examples such as Aspen, Colorado, or California's Silicon Valley illustrate the danger of not providing housing for working families. In these areas service workers must commute more than 45 minutes to work in the community. Employers are chronically short of low-wage workers, and residents have to pay a premium for childcare and other services.

Revitalizing neighborhoods is more than a function of housing. Schools, streets, sidewalks, lighting and parks all add to or subtract from the perceived value of living in a neighborhood.

Recent surveys suggest that residents of high-cost communities are beginning to recognize the danger of excluding working families. A 2003 public opinion survey by the National Association of Realtors® found that:[23]

- 62% of respondents worry that the cost of housing is getting so expensive that teachers, firemen and police cannot afford to live in the area;
- 42% worry they have to spend too much time commuting because homes closer to work are too expensive; and
- 48% think rents are being driven up because there is not enough rental housing available.

Several communities have launched public awareness campaigns to put a face on the need for affordable housing. Through print and other media, these public service announcements remind people they need service workers in their neighborhood. The primary message is that low-income families are important and valuable to the community, not a liability.

The Hyams Foundation focuses on social justice for low-income communities in Boston. Like other funders, Hyams recognized the sustained impact that can result from training residents to become involved in political and economic decision-making in their community. Hyams has been a leader in the Building Community Initiative, an organizing effort with the goal of reducing violent crimes in high-risk neighborhoods. This initiative has led to grassroots initiatives that built broad-based support and enough political pressure to shut down crackhouses, renovate parks and invest more public and private money into alternative youth programs. All of this helped to reweave the social fabric of the community. See www.nhi.org/online/issues/101/allen.html.

Neighborhood Revitalization

While high-cost markets struggle with gentrification and the perils of property values increasing too fast, in softer markets the predominant concern is how to stimulate declining neighborhoods. Revitalizing neighborhoods is more than a function of housing. Schools, streets, sidewalks, lighting and parks all add to or subtract from the perceived value of living in a neighborhood. Housing conditions and quality are often indicators of the state of the neighborhood, along with rents or sales prices compared to citywide averages or over time. Housing redevelopment can be a linchpin to neighborhood revitalization, particularly when coupled with community organizing and infrastructure improvements.

However, it is important to note that revitalizing a neighborhood may actually involve attracting middle- and upper-income families to an area. Distressed neighborhoods often have an excess of low-cost rental housing. Improving units, converting them to ownership status and selling them to more affluent families can bring needed economic and political capital to a neighborhood. Such strategies are challenging to accept for some advocates of low-income housing, however.

Neighborhood revitalization is typically discussed in the context of older urban neighborhoods. Such areas offer location advantages, such as proximity to urban centers, shorter commuter times and historic architecture. However, revitalization also can be applied in suburban, small-town and rural settings. In each case the focus is as much on impacting places as it is on providing housing to people. Successful revitalization can lead to positive economic and social results without gentrification, although such work takes a long time and is extremely sensitive to changes in the broader real estate market.

On the Horizon:

- Aftermath of the housing boom
- Housing for the elderly / aging in place
- Housing for immigrants
- Preservation of expiring use projects
- New roles for FHA-backed mortgages
- Rising mortgage defaults and foreclosures
- Gulf Coast reconstruction following hurricanes Katrina and Rita

As more immigrants come to the U.S. – particularly from Mexico, but also from Asia, Africa and Eastern Europe – they are reshaping housing markets.

The Cleveland Foundation, the George Gund Foundation and the Mandel Foundation have provided significant grant support for Neighborhood Progress, Inc. (NPI) for a Strategic Investment Initiative. The initiative works to rebuild and revitalize six underserved neighborhoods and stimulate market recovery. Grant funds allow NPI to acquire properties and vacant land, demolish dilapidated buildings and stabilize vacant properties. NPI hopes to use these properties as keys to reinvigorating investment in these neighborhoods. NPI's programs have been recognized as a national model.
See www.neighborhoodprogress.org.

Recovery from Hurricane Katrina in the Gulf Coast has highlighted the important role of housing and the role foundations can play. The Baton Rouge Area Foundation partnered with 15 other funders in the area to leverage and complement each other's efforts. Grants supported immediate needs, as well as support for local agencies to rebuild capacity. The scale of rebuilding efforts requires coordination and community input. By providing unrestricted grants to local organizations to hire staff, efforts can stay better connected, increasing the effectiveness of the rebuilding effort.
See: www.foundationsforrecovery.org.

Looking Ahead

What housing issues are on the horizon? Of course each housing market has its own unique circumstances, but one common element of most housing markets since 2000 has been the rapid increase in costs of owner-occupied housing. In many markets, house prices have more than doubled in five years. While this may be a boon for existing homeowners, it makes homeownership for lower-income families more challenging than ever. If prices remain at current levels, innovative approaches to produce low-cost homeownership opportunities will need to be expanded, through land trusts, cooperatives, manufactured housing and other means. If there is a housing "bubble," as some analysts have speculated, then homeownership will become more affordable – but some families will be trapped in homes with mortgages that exceed the market value of their property.

Two demographic trends are worth noting over the coming decade. First, as health care increases seniors' ability to maintain independent lifestyles, there will be more demand for services that support the elderly to "age in place." These might include small loans and grants for home repairs and accessibility improvements, as well as in-home social services. The second demographic trend relates to immigration. As more immigrants come to the U.S. – particularly from Mexico, but also from Asia, Africa and Eastern Europe – they are reshaping housing markets. Even in smaller cities, neighborhoods previously in decline have experienced a revival as immigrants, typically moving from larger "gateway" cities (New York, Miami, Los Angeles, etc.) to areas with affordable homes for purchase.

Making forecasts about public policy issues is a challenge, but discussions about the need for federal and state housing preservation programs are likely to continue and grow as additional Section 8 and LIHTC (Low-Income Housing Tax Credit) projects near the end of their affordability restrictions. In addition to discussion about expiring use rental properties, there is likely to be increased pressure to expand production programs for affordable rental housing, particularly for extremely and very-low-income families. In homeownership, the role of the FHA as an insurer of mortgages is likely to be debated, particularly if FHA's share of mortgages originated each year continues to decline. Issues related to the growth of subprime lending and disparities in mortgage interest rates and terms by race and income are also likely to be more closely scrutinized.

Issues of homeownership preservation are likely to become more prominent in coming years. The loss of jobs in the manufacturing sector is likely to lead to more dislocated workers unable to maintain their home or mortgage. In addition to devastating individual families, these trends can destabilize neighborhoods in areas with a high concentration of manufacturing jobs. Programs to prevent fore-

Issues of homeownership preservation are likely to become more prominent in coming years. The loss of jobs in the manufacturing sector is likely to lead to more dislocated workers unable to maintain their home or mortgage.

Photo courtesy of Housing Assistance Council closures and provide default counseling are likely to face growing demands.

Finally, hurricanes Katrina and Rita in the Gulf Coast produced some of the most profound housing challenges ever experienced. The scale and complexity of restoring infrastructure and rebuilding neighborhoods is daunting. The problem extends beyond bricks-and-mortar issues, however, with community leaders and institutions also crippled by the disaster and evacuation. Much of the nonprofit capacity in the Gulf region needs to be rebuilt. However, foundations are playing a critical role in the efforts to reconstruct communities. By facilitating and providing technical assistance, foundations can help build the capacity of communities to respond. As recovery efforts continue, including massive public spending efforts, the need for collaboration, oversight and community-centered planning will increase.

Call to Action

Why should foundations get involved in housing? Housing affects health, education, neighborhoods and economic development. Housing is important to the social fabric of families and communities. Housing does not have to be a sector served only by the largest, most sophisticated foundations. There are many ways to get involved in affordable housing issues. Foundations and leaders in philanthropy can play a critical role by convening task forces to address housing issues, and by providing human and financial resources to launch projects.

By convening partnerships of public and private institutions, foundations can serve as catalysts to facilitate affordable housing strategies.

There are at least six actions foundations can take to support housing:

1. Fund nonprofit programs that develop housing.
2. Form public-private partnerships.
3. Make program-related investments.
4. Influence housing policy.
5. Fund public-awareness campaigns.
6. Fund or conduct research on housing issues.

Before developing a strategy in the housing arena, grantmakers should understand the local housing market and the challenges faced there, including a lack of affordable homes for low-income families, obstacles to building new affordable housing and the loss of existing affordable units.

Philanthropic efforts might include relatively small grants to nonprofits for predevelopment and soft costs related to planning a housing project, or funds for hiring and training staff. Grants used as equity for developing housing typically can be used to leverage private loans or investment capital many times larger. Funding for loan pools can be used to capitalize mortgages for affordable housing, support first-time homebuyers or stimulate innovative financial structures.

Foundations can also influence policymakers at the state, county, city and federal levels, as well as administrators of nonprofit programs, thus promoting affordable housing as an important community goal. By convening partnerships of public and private institutions, foundations can serve as catalysts to facilitate affordable housing strategies.

Finally, foundations can use their own standing with the general public as a bully pulpit to raise awareness that affordable housing matters for the vitality of communities.

Appendix: Overview of Housing Programs

- Public Housing - Public housing is among the oldest of programs. Each community has a local public housing authority (PHA) that owns and operates housing. Tenants pay rent on a sliding scale according to their income. In most communities there is a long waiting list (often several years) to obtain a public housing unit. While public housing projects often have a poor reputation as being unsafe and run down, most PHAs manage quality affordable housing, albeit in less than desirable locations. The federal HOPE VI program has made great strides in the last decade in demolishing substandard public housing and replacing it with lower-density, mixed-income communities. Touring these revitalized projects often shatters the old stereotypes about public housing.

- Housing Vouchers and Section 8 Assistance - PHAs and states have access to a federal program known as Section 8 rental assistance. Section 8 can be designed as project-based, meaning the subsidy stays with a specific property for a set period, or as a housing choice voucher, which allows tenants to find any apartment in the private market (meeting minimum standards) and then have a portion of their rent paid through the voucher. HUD also allows Section 8 housing choice vouchers to be used toward the purchase of a home. Since vouchers are in short supply, and qualifying households often have severe credit and other problems that might prevent them from obtaining a mortgage, the number of families buying homes with vouchers is small.

- Block Grants - There are two major federal block grant programs: Community Development Block Grant (CDBG) and the HOME Investment Partnership. Both involve federal pass-through grants to state and local governments for housing and community development. CDBG is used for a wide array of community development needs, including infrastructure and social services. HOME is primarily used to subsidize housing construction or rehabilitation.

- Low-Income Housing Tax Credits - State housing finance agencies (HFAs) allocate tax credits to investors/developers willing to own and operate low-income housing. These credits provide investors with dollar-for-dollar tax credits to generate a financial return in lieu of rental income from the property. Enacted as part of the 1986 Tax Reform Act, the Low-Income Housing Tax Credit (LIHTC) is the primary federal policy used to produce affordable rental housing. Through it, nearly 125,000 affordable rental units are produced each year. Investors or developers using the LIHTC receive credits against their tax liabilities for 10 years in exchange for keeping the property affordable and in compliance with state regulations for a minimum of 15 years.

- Section 202, Supportive Housing for the Elderly - This federal program provides capital to finance the development of housing projects with services for low-income seniors. Capital does not have to be repaid, as long as the project serves very-low-income elderly persons for 40 years. Section 202 funds can also be used to provide rental subsidies to low-income tenants after a project is developed.

- Mortgage Revenue Bonds - Also administered by HFAs, these are public bond issues that provide tax-free income for investors. This tax status results in lower interest rates, which can be passed on to reduce the financing costs of developing affordable housing.
- Mutual Self-Help Housing - One well-known means of producing housing is self-help programs, where prospective homeowners spend time working on homes alongside volunteers, often using donated materials. Among the most well known is Habitat for Humanity.[24] These programs offer many benefits beyond providing housing, including community pride, skill-building and preparing first-time homebuyers for the responsibilities of owning a home. However, the scale of these programs is small relative to the need.

- The Mortgage Interest Deduction - One of the most well-known federal policies related to housing is the mortgage interest deduction on federal income tax, and its complement, the real estate property tax deduction. Valued at nearly $60 billion in 2005, this deduction amounts to twice the amount allocated to all direct federal housing subsidy programs. However, the mortgage interest deduction is primarily an incentive to borrow using mortgage debt. It does little to support lower-income, first-time homebuyers. The progressive nature of federal income tax rates results in high-income owners receiving a larger deduction as a percentage of income. Only 5 percent of owner households with incomes below $30,000 in 2004 claimed the deduction, on average each receiving $890. Thus this massive policy has little effect on affordable homeownership.

- Government Mortgage Insurance Programs - The FHA, VA and RHS (Federal Housing Administration, Veterans Administration and Rural Housing Service, respectively) all offer forms of guarantees for lenders making loans to lower-income borrowers with riskier credit profiles. In recent years the use of these programs has declined as more private lenders have begun making loans to underserved borrowers. However, for some borrowers, especially first-time, minority borrowers, these programs represent a trusted source of mortgage loans.

- Down-payment Assistance. HOME, CDBG and other programs have been used to provide grants, loans and matched savings (Individual Development Accounts, or IDAs) to help first-time homebuyers put down equity to buy a home. As the mortgage market has evolved, down payments have gotten smaller, but down payment assistance still helps reduce the size of mortgages and provides borrowers with some cushion in case of a decline in home prices.

- Homebuyer Counseling. Since the late 1960s, the federal government has provided a modicum of support for housing counseling. In the 1990s these funds expanded and were leveraged by private funds from financial institutions focused on educating first-time homebuyers. The funding is distributed to nonprofit agencies that provide education and counseling at the local level. With education and counseling, potential homebuyers can overcome their lack of understanding about buying a home and become better informed mortgage customers.

- Community Reinvestment Act (CRA). CRA was created in the 1970s to require financial institutions to provide loans to underserved (primarily low-income and minority) families and neighborhoods. Banking regulators regularly review lenders' compliance with CRA, and can prevent mergers or expansion of institutions failing to meet the requirements of the act. Thus, lenders have an incentive to create special loan products for borrowers who otherwise would not qualify for a loan.

Resources for Additional Information

The U.S. Department of Housing and Urban Development (HUD) Web site contains information on HUD programs and news: www.hud.gov/initiatives/homeownership

The U.S. Census provides data on homeownership rates nationally and locally: www.census.gov; also see the Census Bureau's user-friendly American Fact Finder: factfinder.census.gov/home/saff/main.html

Created by the Fannie Mae Foundation, KnowledgePlex® provides research and data on housing issues: www.knowledgeplex.org; also related is DataPlace, for easy-to-use access to Census and other data on housing: www.dataplace.org

The Joint Center for Housing Studies is Harvard University's center for information and research on housing in the United States: www.jchs.harvard.edu

The National Housing Conference's Center for Housing Policy provides regular research and reports on issues of affordable housing and homeownership: www.nhc.org

The National Low Income Housing Coalition: www.nlihc.org

Center on Budget and Policy Priorities for research on housing and welfare policy issues: www.cbpp.org

Center for Supportive Housing: www.csh.org

National Alliance to End Homelessness: www.endhomelessness.org

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