



Preservation of Affordable Rental Housing

Evaluation of the MacArthur Foundation's
Window of Opportunity Initiative

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Foreword

The MacArthur Foundation is pleased to have been engaged in the most ambitious program to preserve affordable rental housing since the advent of the Low Income Housing Tax Credit program. Through grants and program-related investments, we hoped to promote rental housing as a critical element in a balanced national housing policy, and to facilitate preservation of low-cost, multifamily rental housing at scale across the country. We saw the practice of acquiring and owning affordable housing with federal and state incentives and subsidies as a powerful lever for policy change that would make it easier for increasingly business-savvy, high-volume, mission-driven organizations to acquire, renovate, and maintain properties for future renters.

Facilitating the preservation of 300,000 affordable homes by 2020 through financial support for nonprofit housing organizations, financial intermediaries, and specialized loan funds is our goal. However, we are not necessarily disappointed with the results to date. In fact, when Window of Opportunity began, most people understood “preservation” as extending the life of a historical property. First, we believed that preservation activity would build over time. It would start with a strong cadre of nonprofit housing owners who would engage in preservation as part of their business model. Their complicated transactions would inform policymakers at local, state, and federal levels about the importance of preservation and what changes would be required to make it easier to implement at significant enough scale to protect and extend the value of past public investment in this country’s increasingly critical affordable housing stock.

Second, we did not foresee the Great Recession. Its significant shock to the national economy made it harder for nonprofit owners to acquire properties, and diminished the ability of state and local governments to support preservation with grants and other sources of capital. The Great Recession created a perfect storm: a drop in the production of new affordable housing; a lack of financing for preservation; and reduced institutional support for the most committed nonprofit housing organizations. At the same time, it increased the need for low-cost housing as people were forced from their homes through foreclosure or saw their incomes decline with job loss.

While it is true that Window of Opportunity focused primarily on that portion of the housing stock originally developed with federal and state incentives and subsidies, it was a deliberate choice. Our goal was to affect public policy. We saw the relationship between the mission-driven, long-term housing owners and their public-sector partners, and their complicated transactions as the path to changes that would encourage and facilitate preservation at greater scale. Preservation of unsubsidized, affordable housing is an essential, worthy challenge, but it lacks a clear, direct path to policy change. However, we are pleased efforts are underway to increase financing options for this portion of the nation’s housing stock.

We embrace the conclusions of the report. Critically, we have made extensive changes in how we track and measure progress and the impact of our programs. At the same time, there

are important results we wish to emphasize further. Specifically, the initiative's equity-like, program-related investment support of the nonprofit owners has had a significant impact on the structure and operations of these organizations. They have changed their business models, increased the size of their portfolios, and, in many cases, improved their net asset position, without default.

We hope that these organizations, strengthened through the Foundation's investment, are the legacy of Window of Opportunity. We believe they will continue to engage in preservation at scale and, through their work, encourage new and more effective policies that support preservation at all levels of government, and safeguard the public investment made in this critical national asset—housing for people of modest means.

Julia Stasch
President, MacArthur Foundation

Preface

In 2014, the MacArthur Foundation sponsored RAND Corporation's Infrastructure Resilience and Environmental Policy Program and the University of Southern California (USC) Lusk Center for Real Estate to evaluate its Window of Opportunity initiative. The philanthropic initiative started in 2000 and will end in 2020, allocating \$187 million in grants and loans to preserve privately owned affordable rental housing. The purpose of the evaluation is to assess whether the initiative achieved its goals, as well as to provide preservation actors and policymakers with lessons learned about effective preservation practices and to describe the prospects for the future of preservation. The evaluation also assesses the structure of Window of Opportunity to yield lessons for future philanthropic initiatives.

The report includes an analysis of national demand for and supply of affordable rental housing in the decade leading up to Window of Opportunity and then during 2000–2010, while the Initiative was ongoing. The evaluation also draws on 83 interviews, a document review, and four case studies to assess whether the foundation achieved its objectives.

The report is intended for several audiences. The first is the MacArthur Foundation itself as it assesses lessons learned from what will be a 20-year initiative and applies them to the design and management of its future philanthropic efforts. Affordable housing developers/owners, advocates, and others in the field may also be interested in the report's summary of the evolution of practices in preserving affordable rental housing and challenges and opportunities for preservation. Finally, the report may help other philanthropies apply relevant lessons learned here to their own philanthropic initiatives, even if they do not pertain to housing.

This report is the product of a collaboration between researchers at the RAND Corporation and at USC's Lusk Center for Real Estate. The RAND Corporation authors are Heather L. Schwartz, Lois M. Davis, and Catherine H. Augustine. The USC Lusk Center for Real Estate authors are Raphael W. Bostic, Richard K. Green, and Vincent J. Reina.

RAND Infrastructure Resilience and Environmental Policy

The research reported here was conducted in the RAND Infrastructure Resilience and Environmental Policy program, which performs analyses on urbanization and other stresses. This includes research on infrastructure development; infrastructure financing; energy policy; urban planning and the role of public-private partnerships; transportation policy; climate response, mitigation, and adaptation; environmental sustainability; and water resource management and coastal protection. Program research is supported by government agencies, foundations, and the private sector.

This program is part of RAND Justice, Infrastructure, and Environment, a division of the RAND Corporation dedicated to improving policy- and decisionmaking in a wide range of policy domains, including civil and criminal justice, infrastructure protection and homeland security, transportation and energy policy, and environmental and natural resource policy.

Questions or comments about this report should be sent to the project leader, Heather Schwartz (Heather_Schwartz@rand.org). For more information about RAND Infrastructure Resilience and Environmental Policy, see www.rand.org/jie/irep or contact the director at irep@rand.org.

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Summary

In the United States, where approximately one-third of U.S. households rent rather than own their homes, rents since 2000 have become increasingly unaffordable for low- and middle-income families in virtually every U.S. metropolitan area. This trend is especially concerning because rents were already unaffordable for a large share of low-income households in the 1990s. Our analysis shows that, in that decade, even in a best-case scenario in which all renters hypothetically rented homes perfectly matched to their income—e.g., a family at the 20th percentile of income rented a home that is at the 20th percentile of the local rental price distribution, and so on—the average low-income household in 226 out of the 238 largest metropolitan statistical areas (MSAs) in the United States still needed to pay more than 30 percent of its income—a common metric of affordability.

The supply of subsidized rentals in the United States has always fallen short of the demand for it. In the late 1990s, there was growing concern that the significant portion of subsidized rental homes that were coming to the end of their initial subsidy period would not obtain renewed subsidy and that the amount of affordable rental housing would fall to even lower numbers.

Responding to this escalating concern, in 2000 the MacArthur Foundation launched a philanthropic initiative to preserve privately owned affordable rental housing. Preservation is the act of extending the affordability of either subsidized or unsubsidized rental homes that are at risk, for one reason or another, of no longer being affordable for low-income households. For subsidized rental housing, preservation typically means renewing a subsidy when the term of the initial subsidy comes due to expire, or encouraging owners not to opt out early from a subsidy program. With unsubsidized rental housing, preservation usually refers to mission-oriented buyers purchasing rentals at risk of becoming unaffordable (either because of rising rents or because of the building falling into obsolescence) and investing a modest amount to rehabilitate the homes as needed to keep the property condition viable while also keeping rents at levels that are affordable to low-income persons.

The MacArthur Foundation's philanthropic initiative, called Window of Opportunity (WOO), is a 20-year effort in which the foundation issued \$187 million of loans and grants to a wide range of recipients, including nonprofit developers, loan funds, networks of nonprofit owners of affordable rental housing, advocacy organizations, state and local government agencies, and researchers. The foundation's ultimate goal for the initiative was to help secure a policy framework that would mitigate, and perhaps even reverse, the projected loss of affordable rental housing.

In this report, we describe the seven strategies by which the MacArthur Foundation sought ambitious changes in the preservation of affordable rental housing. In brief, these strategies were to

- support a cadre of large nonprofit owners of affordable rental housing to both preserve rental housing and act as spokespersons for preservation
- increase capital for preservation by investing in special-purpose vehicles, such as preservation-themed loan funds
- invest in regional interagency partnerships to retain affordable rental housing
- develop business practices, tools, and research for or about preservation
- provide loans and grants directly to state and local government agencies that themselves fund preservation transactions
- promote low-income tenants’ rights to remain in and advocate for affordable rental housing
- improve the funding, regulatory, and legislative context for preservation through the foundation’s combined investments in nonprofit owners, networks of nonprofit owners, special-purpose vehicles, state and local government agencies, and advocates.

To learn from the initiative, in 2014 the MacArthur Foundation asked a team composed of RAND and University of Southern California Lusk Center for Real Estate researchers to evaluate whether the foundation met its desired outcomes. This report includes our findings about Window of Opportunity, and it concludes with lessons learned for the MacArthur Foundation and for other philanthropies as they design similarly large-scale philanthropic initiatives. Original analyses of the supply of and demand for rental housing; secondary data about preservation funding and activity; 83 interviews of developers, advocates, lenders, researchers, philanthropies, and MacArthur Foundation staff; and four case studies inform our determinations of whether the MacArthur Foundation met its objectives for WOO.

Key Findings

Table S.1 presents our assessment of WOO in terms of its six main desired outcomes.

As the table indicates, we found that the MacArthur Foundation met a majority of its goals for WOO. As the initiative nears its end, large nonprofit preservation developers/owners

Table S.1
Outcomes from Window of Opportunity

| Desired Outcome | Was It Achieved? |
|--|------------------|
| 1. Increased standing of large nonprofit preservation owners | Yes |
| 2. New and more financing structures for preservation | Modest yes |
| 3. Policy framework to achieve preservation of 1 million affordable rental homes by 2020 | Modest yes |
| a. Increased resources for preservation | Yes |
| b. New regulations and legislation for preservation | Modest yes |
| c. New federal incentives for preservation | No |
| 4. Greater number of groups involved in preservation | Yes |
| 5. Greater awareness of preservation | Modest yes |
| 6. WOO recipients on track to preserve 300,000 affordable rentals by 2020 | No |

have greater financial capacity and reputation, there are more resources and vehicles for preservation, and, to a lesser degree, the policy environment has changed to the benefit of preservation. However, WOO has not achieved its most ambitious federal policy goals and is likely to fall short of its target for the number of privately owned affordable rental housing that will be preserved.

The Window of Opportunity Initiative Has Achieved Most of Its Goals

- Virtually all of the experts we interviewed for this study affirmed that large nonprofit owners have better standing than they did before WOO. These owners are now larger, more sophisticated, better connected to financing, better positioned to partner with resident service organizations, and using a more sustainable business model. Moreover, there was strong consensus that WOO investments were important in this evolution, helping build up the capacity and scale of the nonprofit owner borrowers. Further, the MacArthur Foundation's investments in peer networks helped them to share best practices and advocate effectively at the state and federal level for policy change.
- WOO has had mixed success in its effort to create new and more financing structures for preservation. The initiative facilitated the creation of new and innovative financing structures, such as the first-of-its-kind real estate investment trust (REIT), all 20 of the special-purpose vehicles in which the foundation invested have or are meeting the loan performance benchmarks, and more capital is available for preservation. However, none of the new vehicles has become a common industry tool, and there are few new sources of permanent funds for preservation.
- There has also been mixed success in creating a policy framework that would result in the preservation of 1 million affordable rental housing units. The two most notable achievements toward this outcome were the increase in resources for preservation via the enlarged share of Low Income Housing Tax Credit (LIHTC) funding for preservation and some statutory and administrative changes within the U.S. Department of Housing and Urban Development (HUD) that promoted preservation. There has also been substantial state-level activity to promote preservation, as encouraged by WOO's State and Local Housing Preservation Leaders initiative. However, new federal incentives for preservation, such as tax code changes, did not materialize, nor have there been new federal laws or regulations to promote preservation.
- More groups have become involved in preservation than before WOO began in 2000. Interviewees credited WOO with accelerating changes ongoing within the affordable housing developer industry. An important change that many noted is that preservation is now a commonplace activity among large nonprofit affordable housing developers, who have recognized that it helps to diversify a portfolio and reach a broad spectrum of residents of lower up to moderate incomes.
- We found that policymakers reported valuing both rentership (as separate from ownership) and preservation more during the WOO years, and that WOO has been a driver for at least the heightened salience of preservation to more evenly "balance" housing policy. More specifically, interviewees concurred that policymakers within HUD and the Treasury Department under the Obama administration, as well as state housing finance agency leaders, have greater awareness of preservation. But they disagreed about elected officials and appointees outside that group, with experts in high-cost housing markets

tending to report that policymakers and elected officials “got” preservation, while those in lower-cost markets did not.

- Experts reported that better data about affordable rental housing was critical to making the case for preservation to elected officials. WOO was credited with helping organizations build that data, particularly data about the federally subsidized inventory. There are also now better ways to forecast properties at risk of falling out of the subsidized rental housing supply.

When considering some of the reasons for these achievements, we identified five structural features of this philanthropic initiative that we or interviewees felt enhanced its impact. The first is that the relatively long **duration** of the initiative has been critical, giving recipients and policymakers the “runway” to make long-term plans and to justify long-term capacity-building investments for preservation.

A related second reason is that **long-term, low-interest loans** (program-related investments, or PRIs) have enabled nonprofit owners to build their businesses. With seven- to ten-year terms and interest rates typically ranging from 1 to 2 percent, the MacArthur Foundation PRIs enabled owners to recycle the funds several times over as they replaced PRI-funded predevelopment bridge funds with permanent sources of capital for preservation transactions. Borrowers reported that, in addition to using PRIs for bridge funds, PRIs enabled them to shift away from short-term fixes, such as reliance on developer fees to pay for asset management functions, and instead focus on longer-term strategies, such as managing their assets to produce cash flow, building databases, and buying out co-general partners to become sole owners of properties they intended to preserve.

A third feature of WOO is that the MacArthur Foundation’s two **competitive solicitations** encouraged local innovation while also helping form a national identity for preservation.

A fourth aspect of WOO is that the **“sandwich model” of funding** helped to create a self-reinforcing ecosystem for preservation. In other words, the top-down approach of funding national advocacy organizations and national networks of nonprofit owners, combined with the bottom-up approach of funding regional or multistate owners and individual state-level partnerships, was an effective way to facilitate locally derived innovations and then help them achieve scale by spreading them throughout the industry.

Finally, the **content-area expertise** of program officers raised the quality of the initiative. MacArthur Foundation program officers involved in WOO have backgrounds in investment banking, real estate development, city housing departments, federal government, and affordable housing loan underwriting. Grantees reported that foundation officers’ content-area knowledge was sufficient to enable them to “pick the right bets” in terms of which organizations would go on to innovate preservation practices.

But Not All Goals Have Been Met

In focusing on preservation, the MacArthur Foundation identified a policy problem that few foundations recognized, and then it set ambitious goals to preserve affordable rental housing in the United States. Although WOO recipients created meaningful, positive changes for preservation, the foundation did not achieve its desired scale of preservation activity:

- WOO is likely to fall short of its numerical target of preserving 300,000 affordable rental homes through its own funding by 2020. Owner/developers and preservation-oriented

special-purpose vehicles that received WOO grants or loans reported preserving approximately 150,000 units to date. This is a rate that, while significant, falls short of that required to meet the desired 300,000 target by 2020. We do not know what portion of these units would not have been preserved but for WOO.

- WOO is unlikely to meet its broader goal of helping to put in place a policy framework by 2020 that would cause the preservation of 1 million affordable rental homes. One estimate, based on the most recent data from the National Housing Trust, suggests that approximately 400,000 affordable rental units will be preserved by that time through the LIHTC program, which is the primary public funding source for preservation activities.

We identified five main reasons for why the ambitious preservation targets will likely not be met. The first is that philanthropic initiatives that target a huge asset class such as housing are vulnerable to significant **macro-economic forces** that affect the broader market. The Great Recession that started in 2007 fueled significant declines in the development and preservation of affordable rental housing, and it slowed preservation activity for WOO beneficiaries and nonbeneficiaries alike. Indeed, as interviewees pointed out and our data analysis confirms, the greatest foe of preservation has been the overall real estate market; rents have been rising rapidly and ubiquitously over the past five years, causing some unsubsidized rental units that were affordable to become unaffordable.

Second, WOO's goal for a policy framework that would affect the preservation of 1 million affordable rental homes exceeded in scope WOO's primary, although not exclusive, focus on building up large nonprofit preservation owners, which make up a small segment of the affordable rental housing sector. The majority of transactions through WOO were by nonprofit owners or special-purpose vehicles for the preservation of multifamily, subsidized rental homes. In this way, WOO activity focused on a segment of affordable rental housing where preservation activity is unlikely to amass to the desired levels. With a few exceptions that we note, **WOO generally excluded for-profit owners of affordable rental housing**, although these owners control approximately 85 percent of privately owned affordable rental housing (Joint Center for Housing Studies, no date). WOO also focused primarily on the preservation of multifamily rental housing (defined as five or more rental units per property), yet multifamily rentals make up a little less than half of affordable rental housing; the rest belongs to single-family properties of one to four rentals. A majority of single-family affordable rentals are unsubsidized and have far fewer policy levers and financial products for preservation than subsidized, multifamily rental buildings. WOO indirectly engaged for-profit owners, the majority of which own small numbers of rental homes, through its investments in intermediary entities, such as special-purpose loan funds or state agencies that, in turn, granted or loaned funds to for-profit owners. Likewise, WOO has funded some activities, such as the REIT called Housing Partnership Equity Trust, which has acquired unsubsidized affordable rental homes. But we did not find that many WOO grantees directly engaged large and small for-profit owners and single-family rentals that collectively represent the majority of affordable rental housing.

A third reason was the general **lack of housing-related legislative action in Congress** during the WOO period. Although the Housing and Economic Recovery Act of 2008 included preservation-related provisions, the more common occurrence during the WOO years was the introduction in the House or Senate of several bills related to preservation, each of which died in committee. Such federal action would have likely have caused much more preservation activity.

A fourth reason, related to the third, is that that **preservation lacks nationally agreed-upon definitions, goals, data, or universally cited champions**. Given the variation in the dynamics of local housing markets, many experts we interviewed doubted that a single national “case” or definition for preservation would or could emerge. They instead advocated for a pragmatic approach to use whatever works locally to convince elected and appointed officials to accept or invest in affordable rental housing. While this approach can work at the local level, it undermines the ability of advocates to frame a single, coherent national campaign for increased investment in preservation. It also impedes standardization of business practices and financial tracking among the nonprofit preservation owners, which limits their ability to access substantially larger sources of capital from lenders and investors that expect standardized underwriting processes.

A final reason is that, although data about preservation has improved, **national data do not yet provide comprehensive information** at the property-level about preservation of unsubsidized and subsidized properties. The absence of these data impedes the ability to fully quantify the amount of affordable rental housing at risk of loss and the scope of the problem, which could help develop a broader political coalition that could drive greater federal action.

Acknowledgments

We wish to thank the numerous people who contributed their time to this evaluation. MacArthur Foundation staff members Debra Schwartz, Allison Clark, Mijo Vodopic, Ianna Kachoris, and Urmi Sengupta gathered many documents, sat down for interviews, and carefully reviewed several drafts. Chantell Johnson, the MacArthur Foundation's Director of Evaluation, skillfully managed the project and provided helpful input and direction throughout. We appreciate their collective contributions to the evaluation of this complex, large philanthropic initiative. We also thank the more than 100 people we interviewed for either the case studies or the expert interviews about preservation generally and Window of Opportunity specifically. These individuals are listed in Appendix B or the case studies included in Chapter Four. Without remuneration, they often gave more than an hour of their time and shared additional documentation with us. Individuals profiled in the case studies in particular often contributed multiple hours of their time.

Our RAND colleague Vivian Towe provided a very careful, constructive read of the report at the conclusion of the project. We also appreciated the excellent review by Jeffrey Lubell (Abt Associates). The two reviews helped us improve the report. Finally, we would like to acknowledge the publishing contributions of James Torr for editing the report and Sandy Petitjean for creating and helping design the figures.

Introduction

Overview of Window of Opportunity

In reaction to a research report describing the potential loss of 1 million affordable rental housing units in the near term (Joint Center for Housing Studies, 1999), in 2000 the John D. and Catherine T. MacArthur Foundation started what was to become a 20-year initiative to preserve privately owned affordable rental housing.¹ It is the largest philanthropic initiative devoted to preservation in the United States. *Preservation* of affordable rental housing refers to retaining the supply of low-cost existing rental housing that could be lost for any one of three reasons: the failure to extend a subsidy when the first set of time-limited housing subsidies expire, resulting in increased rents; rentals falling out of the housing stock due to the obsolescence of buildings that have not been maintained; and unsubsidized but otherwise low-cost rental housing becoming unaffordable due to rising housing prices. Preserving a rental home usually involves refinancing and renovating it to improve and extend the life of the property.

At the time the foundation first started the initiative, preservation was a poorly understood and low-visibility niche of affordable housing policy. Around 2000, the dominant focus within affordable housing policy was the expansion of homeownership for low-income households. One reason preservation was not well understood was a lack of hard numbers regarding the amount of affordable rental housing and the timing of expiring subsidies. In response, the MacArthur Foundation launched the Window of Opportunity (WOO) initiative, referring to the timeliness of philanthropic investment to expand preservation data and preservation activity to counter the projected net losses of affordable rental housing over the next decade (MacArthur Foundation, 2005).

WOO was initially funded at \$45 million for a period of three to five years, but it grew to a \$187 million initiative (composed of loans and grants) that started in 2000 and will end in 2020. The original stated goal of WOO was to help mission-driven nonprofit owners and special-purpose vehicles preserve 100,000 units of affordable rental housing by 2013. This goal was revised to 300,000 by 2020 when the foundation tripled its investment from \$50 million to \$150 million for the initiative. This was an ambitious target, in that it implied that the foundation could help owners preserve affordable housing with a foundation contribution of less than \$1,000 per rental home (\$187 million/300,000 homes). The numeric goals notwithstanding, the core goal of WOO was to put in place a policy framework—i.e., laws and regulations, incentives, and funding—that would enable the preservation of 1 million affordable

¹ Preservation can also include public-sector-owned housing, such as public housing, but the MacArthur Foundation initiative focused exclusively on privately owned affordable rental housing.

rental homes by 2020, effectively reversing the projected loss of affordable rental homes that motivated the initiative.

The means by which the foundation intended to reach these goals were as follows:

- Help build a cadre of strong **large nonprofit owners** of affordable rental housing who could act as spokespersons for preservation.
- Increase public and private **capital for preservation** through seeding special-purpose vehicles, such as preservation-themed loan funds.
- Fund grantees that would make the case for and increase **awareness of preservation** through advocacy, research to document the housing inventory, risk assessments, documentation of cost-effectiveness, and standardization of enterprise-level financial metrics to encourage larger investors to participate.
- Fund **state and local agencies** who themselves fund preservation transactions to increase awareness of and commitment to preservation.
- Invest in **local partnerships**, particularly in Cook County, Illinois, to develop models for cross-agency integrated efforts to preserve local affordable rental housing.
- Stimulate **public policy change** to achieve the following three outcomes: (a) a predictable stream of resources dedicated to preservation, (b) streamlined regulations to facilitate otherwise complicated preservation real estate transactions and long-term preservation, and (c) increased incentives for preservation.

Purpose of the Evaluation

In January 2014, the MacArthur Foundation selected via a competitive request for proposal RAND and the University of Southern California Lusk Center for Real Estate to evaluate its WOO initiative. The program evaluation includes an analysis of national demand for and supply of affordable rental housing, interviews with affordable housing experts and WOO grantees, review of available data on funding for and number of affordable rental units preserved, and four case studies of WOO activities. The evaluation has three purposes:

- assess whether WOO realized its goals
- provide stakeholders, including policymakers concerned with preservation, with lessons learned about effective preservation practices and prospects for the future of preservation
- assess the structure of WOO and its implications for future philanthropic initiatives.

There are several audiences for this evaluation. The primary one is the MacArthur Foundation itself as it assesses lessons learned from WOO to influence the design and management of its other philanthropic initiatives. The report's overview of preservation and the evolution of practices to preserve affordable rental housing is also intended for developers/owners, advocates, and policymakers who work on affordable rental housing production and preservation. The report is also intended to be of interest to other philanthropies as they consider how to design and execute philanthropic initiatives, even in areas not related to housing.

Methods

To achieve the three objectives of the evaluation, the research team conducted multimethod analyses. These research methods are described briefly here, and Appendix A contains a detailed description.

- To quantify preservation activity in the United States and to assess whether rental affordability got better or worse during the WOO years, we used Census and American Community Survey microdata (Ruggles et al., 2015) to examine the demand for rental housing and relate it to the supply of affordable housing. To quantify the supply of federally subsidized rental homes, we also used U.S. Department of Housing and Urban Development (HUD) administrative data. We used National Housing Trust data to catalogue the number of rental homes preserved with Low Income Housing Tax Credit (LIHTC) equity from 2003 through 2010. We used data from the National Housing Trust and Center for Community Change to catalogue preservation investments and financing vehicles.
- To document the units preserved through WOO and the total development costs per unit, we obtained self-reported data from WOO borrowers (i.e., nonprofit owners, loan funds, state agencies) that Policy Map, a MacArthur grantee, had collected.
- To document the design of the philanthropic initiative and changes made to it over time, we reviewed approximately 200 documents that the MacArthur Foundation provided to us.
- To understand changes to the field of preservation as a whole in the decade leading up to and then during the years of Window of Opportunity that have elapsed as of the time of the evaluation, we interviewed 83 experts, including 10 developers, 12 advocates or policy experts, 7 researchers, 19 financiers, 11 current or former public-sector subsidized rental housing employees, 14 peer foundation employees and MacArthur Foundation consultants, and 10 current or former MacArthur staff or board members.
- To understand whether WOO helped build the field of preservation, we conducted case studies on four core activities within WOO: seeding special-purpose vehicles, networking among nonprofit owners of affordable rental housing, funding local partnerships to build a local infrastructure for preservation, and funding public-sector partnerships to build state preservation strategies and infrastructure. We aimed to select activities that also had the potential for sustained activity post-WOO and to identify lessons learned that might inform other jurisdictions interested in replicating similar initiatives.

Limitations

There are two primary limitations to this evaluation. The first and most important one is that we do not present causal evidence about the effect of Window of Opportunity. In other words, we lack the means to quantify the proportion of preservation activities that occurred only because of the MacArthur Foundation's philanthropic initiative. To quantify preservation activity, we rely on three main data sources. The first is WOO recipients' reports of the number of rental homes they preserved during the years in which they received grants or loans from MacArthur. The second source is national databases about funding for and the number

of preserved affordable rental homes, with the caveats that we describe in the next paragraph. The third source is preservation experts' perceptions of the effects of Window of Opportunity. While it is impossible to know the number of units that would have been preserved in the absence of WOO, the breadth and the consensus of views among interviewees across a fairly narrow field lead us to believe that the hypotheses contained in this report about the influence of WOO are reasonable. Nevertheless, we qualify our language throughout the report to avoid exaggerating the reliability of our conclusions.

A second limitation is that many of the unknowns that the MacArthur Foundation noted at the beginning of launching WOO still hold. Namely, we still do not know the number of rental homes nationally that have been preserved as affordable for low-income households. While we can trace the supply of rental affordable housing and how the overall supply has changed over time, we do not know the extent to which affordable housing remains because of preservation. The primary reason we do not know this is lack of longitudinal rental property-level data across the entire spectrum of subsidized and unsubsidized properties. There is a continuing shortage of comprehensive databases that accurately categorize the number of existing subsidized units across the country, the subsidy layers on these properties, and whether properties renewed their subsidies prior to 2003. Quantifying preservation of unsubsidized affordable rental housing is an even greater challenge, since it is difficult to know when an owner acts to preserve an unsubsidized rental unit in the absence of an overt subsidy. For example, some landlords may choose to charge rents below prevailing market rents to keep units affordable for their long-term tenants. We have no way of knowing when this occurs.

A third challenge that follows from the second is the lack of consensus about the definition of preservation. The foundation defined preservation as "Affordable rental housing is preserved when an owner acts to keep rents affordable for low- and moderate-income households while ensuring that the property stays in good physical and financial condition for an extended period" (MacArthur Foundation, 2009). Embedded in the definitional problems are who counts (i.e., disagreement among practitioners and consequent data tracking about very low-income, low-income, and moderate-income households), what rent levels count as affordable (e.g., 30 percent of income, 50 percent of income), and what activities or acts trigger the term *preservation* (e.g., renewed subsidy in a given property when the original subsidy expires, the extent of rehabilitation on a subsidized or unsubsidized property to merit "preservation" and "good condition," acquisition of a property that was likely going to go unoccupied due to disrepair, refinancing of a property to extend its affordability, and porting of a subsidy from unviable property A to viable property B). We discuss this definitional challenge in detail in subsequent chapters.

Structure of the Report

This report contains six chapters. Chapter Two orients the reader to rental housing in the United States, explains preservation, and describes the lack of affordable rental housing in the decade leading up to WOO. Chapter Three defines the WOO initiative and details the foundation's activities within each of the seven strategies it pursued. Chapter Four contains case studies about four core activities of WOO, highlighting the features that enabled their success to isolate for readers those elements that could help to boost preservation. Chapter Five examines the outcomes of WOO, noting that we primarily rely on qualitative interview

data and use quantitative data where available. Chapter Six concludes with a summary of the accomplishments and shortcomings of WOO, examines how the affordability of rental housing changed in the WOO years, and offers lessons learned about the structure of MacArthur's philanthropic initiative. Appendix A describes our research methods, Appendix B lists experts interviewed for this evaluation, and Appendix C includes ancillary tables.

Rental Housing and the Role of Preservation

In this chapter, we provide the context for the Window of Opportunity initiative by describing the nature and extent of the affordable rental housing problem at the time that WOO began. To do so, we first provide an overview of rental housing generally and then document changes in the availability of affordable rental housing over the 1990s, the decade leading up to WOO. Since the aim of Window of Opportunity is the preservation of privately owned affordable rental housing, in this chapter we also provide an overview of rental housing preservation, explain what preservation is, how it works, and types of preservation activity from the 1980s to 2015. Even though Window of Opportunity focused largely (but not exclusively) on the preservation of multifamily rental housing (defined as five or more rental units per property), we include in our analyses both single-family and multifamily rentals, since the main purpose of this analysis is to provide a complete picture of rental affordability.

An Overview of Rental Housing in the Decade Leading Up to Window of Opportunity: 1990–2000

Understanding the extent of the affordable rental housing problem in 2000, when WOO began, requires knowledge of rental housing markets and the dynamics of demand and supply that governed them between 1990 and 2000. In this section, we first briefly describe the rental market in the United States in that period, then identify the factors that drove changes in the demand for and supply of rental housing from 1990 to 2000. These changes were instrumental for changes in the affordability of rental housing during the decade. As part of this discussion, we look at trends in the stock of federally assisted rental housing.

U.S. Rental Housing Markets: Overview and 1990 Baseline

Over the past 50 years, approximately two-thirds of U.S. households in any given year have been homeowners, leaving one-third of U.S. households as renters. More specifically, the rate held steady near 64 percent between 1970 and 1993, before rising sharply to 69 percent between 1993 and 2004. Since then, the rate has fallen back to under 64 percent, owing in large part to mortgage foreclosures. This last development increased demand for rental housing, as we discuss later in the report.

Not surprisingly, we observe the same two-thirds ownership to one-third rentals ratio in the overall housing stock. According to the Census, of the 92 million housing units that were occupied in 1990, approximately 33 million of those were occupied by renter households.

As we will discuss, this ratio of two-thirds owner to one-third renter partly reflects the demographics of the United States—since income, which is correlated with age and education, is a driver of homeownership—but the ratio also reflects policy choices, such as mortgage market deregulation, tax policy, and availability of credit (Andrews and Sanchez, 2011). For example, total tax expenditures for owner-occupied housing for 2016 are projected in the President’s Budget to total \$234 billion, not including the interest rate subsidy homeowners receive via Fannie Mae and Freddie Mac (White House Office of Management and Budget, 2016, Table 14-1). By comparison, total federal rental assistance and the LIHTC program combine to about \$47 billion. So while approximately two-thirds of American households are homeowners, more than 80 percent of federal housing subsidies go to them.

The set of U.S. federal housing policies to promote rental housing has been and remains far less than the large federal apparatus to support homeowners. Policies and programs that promote homeownership include the mortgage interest deduction on federal income taxes, the Federal Housing Administration (FHA) and U.S. Department of Veterans Affairs federal mortgage guarantees, and the government-sponsored enterprises Fannie Mae, Freddie Mac, and the Federal Home Loan Bank system. While many of these same entities also insure or finance rental housing, they do so on a smaller scale relative to homeownership. While the White House has held conferences on homeownership as early as 1931, the first-ever White House conference focused on rental housing occurred in 2010 at HUD. The disparity in policy apparatus has had the effect of favoring and expanding homeownership.

Who Rents

A basic review of Census data indicates that there are a number of notable differences between renter households and homeowners; these differences have existed for decades. First, renters are more likely to be unmarried than homeowners. In 1990, for example, the renter rate among married couples was 22 percent, while among singles it was 53 percent.¹ The discrepancy is partly because married couples tend to have higher household incomes than singles, which enables them to more easily become homeowners. Married couples also tend to be less mobile, which means they can amortize the fixed costs of owning over a longer period of time better than singles.

For a variety of reasons, including discrimination, more limited access to credit, and lower average incomes, nonwhites were and continue to be more likely to be renters than whites. In 1990, the gap between nonwhites and whites in rates of renting was 24 percentage points: 31 percent of white households rented compared with 54 percent of nonwhite households.² Because higher incomes are generally needed to become homeowners, renters also tend to be less educated and younger than homeowners. In 1990, the median age and income of renters were 36 and \$20,000, respectively; for owners, they were 51 and \$36,000. We will see below that changes in these factors played a key role in the changes in demand for rental housing that were observed during the 1990s.

Rental Affordability

In considering the price and affordability of rental housing, one approach researchers commonly use is to choose a benchmark income level and define as affordable any unit with a rent

¹ These data come from Integrated Public Use Microdata Series (IPUMS) tabulations (Ruggles et al., 2015).

² These data come from IPUMS tabulations (Ruggles et al., 2015).

less than 30 percent of that income.³ Given that renters generally have lower incomes than homeowners, we select a relatively low income of 50 percent of the area median income as a benchmark. By this metric, Census data indicate that 68 percent of the 34 million rental units (which is a little over 23 million homes) occupied in 1990 were affordable. These 23 million affordable rental homes fall into one of two categories:

1. unsubsidized, meaning that the market-rate rents for those homes are “naturally” affordable to low-income households
2. subsidized from federal, state, and local public sources (or some combination of the three) to make rent levels affordable to low-income households.

The large majority (approximately 84 percent) of these 23 million rental homes belong to the first category.⁴ Note that Window of Opportunity focused almost exclusively on the preservation of privately owned unsubsidized and subsidized affordable rental homes within multifamily properties with five or more units. With a few exceptions, Window of Opportunity excluded the preservation of single-family affordable rental homes (defined as properties with one to four units), and it excluded the preservation of the 1.4 million public housing rental homes. This is a significant exclusion, since a little over one half of affordable rental housing in the United States is in single-family properties.

For most of this report, we take an alternative approach from prior research to describe rental market affordability conditions. Instead of selecting an income threshold and defining all units with rents less than 30 percent of that threshold as being affordable, we conduct a matching exercise that we developed. We include the description of this matching exercise here rather than an appendix to allow the reader to understand the results of our analysis. We do this to resolve a criticism of prior analyses that measure affordability of rent as the share of income a low-income household spends on rent. As critics have pointed out (e.g., Schwartz and Wilson, 2008), the share of income approach is problematic because spending more than 30 percent of income on housing may reflect some households’ preferences rather than indicate a policy problem. Our methodology resolves that problem by determining the fraction of metropolitan statistical areas (MSAs) in the United States where households would have no choice but to spend a large fraction of income on housing, to establish the widespread lack of affordability.

In our matching exercise, we first follow standard practice and define a rent as “affordable” if it equals 30 percent or less of a household’s income. But we then deviate from common practice by examining what share of income a renter at the 20th percentile of the income distribution would have to pay if that household were hypothetically “matched” to a rental home that itself had a rent level at the 20th percentile of the rent distribution within their MSA. We repeat that same matching of income percentile to rent percentile for the 40th, 60th, and 80th percentiles.⁵

³ The 30 percent threshold is a common threshold for the appropriate share of income a household should devote to housing and is applied in many policy contexts. See, for example, HUD’s Housing Choice Voucher program.

⁴ This count excludes local- and state-subsidized properties (if they are not also federally subsidized) as there is incomplete data to count all forms of local, state, and federal subsidized housing. However, federal subsidy is by far the largest source.

⁵ Appendix A describes our methods in greater detail as well as our data sources.

The premise of the matching exercise is that, in a best case scenario that would maximize the affordability of housing for the greatest proportion of residents, households would match their rank within the income distribution to the corresponding rank of rent level within the MSA. This means that a low-income household who earns an income at the 20th percentile of the area income distribution would rent an apartment with a rent level at the 20th percentile of the rent price distribution, thereby matching low income and low rent. Following this approach, there is an affordability problem if we find that households would have to spend more than 30, 40 or even 50 percent of income when matched to the unit with a rent that corresponds to their place in the income distribution.

For each of the 238 largest MSAs in the United States, we conduct this hypothetical matching exercise at the 20th, 40th, 60th, and 80th percentiles of income and rent distributions.⁶ This approach allows us to better appreciate the nuances of rental housing affordability because we can detect affordability issues across various geographies and at various points of the income distribution within a given geographical area, which is not possible using other approaches.

Our analysis (the results of which are shown in Appendix C) indicates that, as of 1990, rental affordability was not good for those in the lower parts of the income distribution but good for households at 60th percentile and above of the income distribution. Those at the 20th percentile of the distribution of renters' income for their MSA would have paid at least 30 percent of their income on the 20th percentile rental unit in 226 out of 238 MSAs, and more than 50 percent in 23 of the 238 areas. The problem of affordability was still prevalent but less widespread for households at the 40th percentile of the income distribution among renters within their MSA. Households in this income tier would have to spend more than 30 percent of their income to rent the 40th percentile rental unit in about half of the MSAs (119 out of 238), and more than 50 percent in none. Affordability conditions were acceptable in all but 3 out of 238 MSAs at the 60th percentile. Those at the 80th percentile of the income distribution could afford an 80th percentile rental unit in all the MSAs as of 1990.

Our results therefore conform to those of prior research (Joint Center for Housing Studies, 1999). We find widespread lack of affordability even if low-income renters filtered perfectly into the most appropriately priced unit for their rank in the income distribution—an assumption we know does not hold because, in practice, imperfect information and moving costs make it more difficult for low-income households to find the ideal unit for their income level. In other words, even in an ideal world of perfect sorting by renters to their appropriately matched rent-level home, most of the households in the lowest-income bracket would still need to pay more than 30 percent of their income in virtually every MSA in the United States. However, in reality many households may not find the “correct” rental for their income level, which likely exacerbates the lack of affordability.

Demand-Side Dynamics: Demographic Changes Between 1990 and 2000

With the 1990 data as a backdrop, we examine how the demand for rental housing changed as the renter population changed, and we describe how these shifts affected the balance between renters and owners. Changes to U.S. households over the 1990s along the four dimensions

⁶ We limit ourselves to the largest 238 metropolitan areas to have an adequate number of sample observations to compute rent and income levels for each quintile.

highlighted earlier—marital status, race, education, and age—had divergent effects on their demand for rental homes, and we consider each demographic characteristic in turn.

Changes in the rates at which households marry, as well as the increasing percentage over the 1990s of nonwhite households, increased demand for rental housing. Marriage rates continued their multi-decade decline through the 1990s, falling from 56 percent at the beginning of the decade to 53 percent by the end. This is a meaningful decline since, after accounting for other demographic characteristics, married couples were 22 percent more likely to be owners than singles. This means that a three percentage point decline in the marriage rate would produce a 0.66 percentage point decline in homeownership, which approximates 900,000 households. This had the effect of increasing rental demand, since unmarried persons are more likely than married couples to rent rather than own their own home. Also contributing to upward pressure on the rental market were shifts in the race and ethnicity of the U.S. population.

As we see in Table 2.1, between 1990 and 2000, the share of the total population that was white decreased. As a result, the five percentage point decrease in the share of the population that was white over the 1990s, combined with the differences in homeowner and renter profile for white and nonwhite households, increased the national share of renters between 1990 and 2000. During this time, the Hispanic and Latino population increased by 3.5 percentage points, and the homeownership rate among Hispanics was 24 percentage points lower than non-Hispanics. As a result, the increase in the Hispanic population, all else equal, also contributed to the increase in renters and rental demand during this period.

When we look at education and age, we see the opposite trend: changes in both these factors over the decade likely increased demand for homeownership. The share of household heads with a college degree or more rose from 20 percent in 1990 to 25 percent in 2000. Given

Table 2.1
Population and Race, 1990 and 2000

| | 1990 | | 2000 | |
|--|----------------------|-----------------------------------|----------------------|-----------------------------------|
| | Population Frequency | As Percentage of Total Population | Population Frequency | As Percentage of Total Population |
| Total population | 248,709,873 | 100.0 | 281,421,906 | 100.0 |
| White alone | 199,686,070 | 80.3 | 211,460,626 | 75.1 |
| Black or African American alone | 29,986,060 | 12.1 | 34,658,190 | 12.3 |
| American Indian and Alaska Native alone | 1,959,234 | 0.8 | 2,475,956 | 0.9 |
| Asian alone | 6,908,638 | 2.8 | 10,242,998 | 3.6 |
| Native Hawaiian and Other Pacific Islander alone | 365,024 | 0.1 | 398,835 | 0.1 |
| Some other race | 9,804,847 | 3.9 | 15,359,073 | 5.5 |
| Two or more races | n/a | n/a | 6,826,228 | 2.4 |
| Total population: not Hispanic or Latino | 226,355,814 | 91.0 | 246,116,088 | 87.5 |
| Total population: Hispanic or Latino | 22,354,059 | 9.0 | 35,305,818 | 12.5 |

SOURCE: U.S. Census Bureau, no date-c.

the relationship between education and homeownership, the rising educational attainment rate tends to push the ownership rate up. The aging of the U.S. population also increased the demand for owner-occupied housing. Figure 2.1 depicts the relationship between age of household head and the homeownership rate in 1990. Note that the ownership rate peaks at the ages of 65–69, and that homeownership rates generally increase with age until age 70. But at nearly all ages, households were more likely to own in 2000 than 1990.

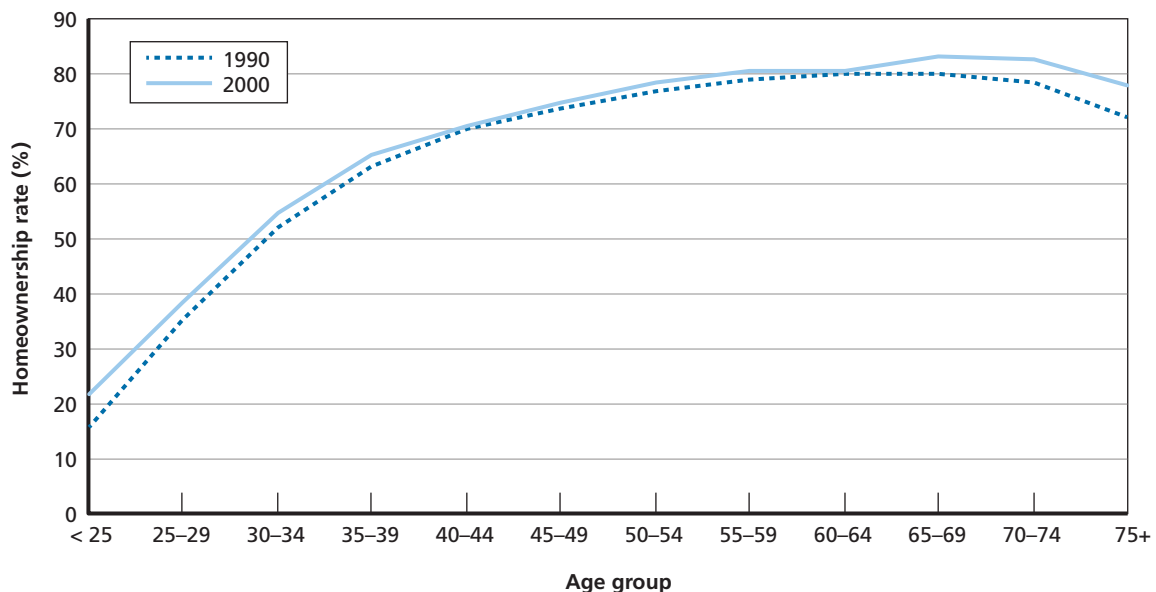
The final important dynamic during the decade was the general increase in the U.S. population. The population grew from 248 million in 1990 to 281 million in 2000, and the number of renters increased from 80 million in 1990 to 86 million in 2000.

In summary, when we look at the demographic changes that occurred between 1990 and 2000, we find there is increased demand for rental units based on changes in the population in terms of marital status, race, and ethnicity. But there are also age and education trends that increase the demand for homeownership (and reduce the demand for rental housing). The net impact of the demographic changes was a slight uptick in the share of households demanding ownership compared with rental housing. At the same time, the U.S. population grew, and the growth in the total number of renter households from 1990 to 2000 exceeded the loss of market share for rental from 1990 to 2000. Consequently, the demand for rental housing increased over the decade.

Rent and Renter Income Changes Between 1990 and 2000

Although one might infer from the mild increase in demand for rental units during the 1990s that rental market affordability might have suffered in that decade, it is necessary to directly examine the components of affordability—rents and renters' income—to make an accurate assessment. In terms of rents, the 1990s were a relatively benign decade for rental changes, par-

Figure 2.1
Homeownership Rate, by Age and Decade



SOURCE: Authors' calculation using IPUMS data (Ruggles et al., 2015).

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ticularly in light of rental income dynamics (as we shall discuss below). The average MSA saw its rent prices rise in real terms by only 1.1 percent overall in the 1990s at the 20th percentile of the rent distribution and slightly more than 2 percent at the 40th and 60th percentiles. This lack of significant movement is also evident when one considers changes in rent on an MSA-by-MSA basis.⁷ Inflation-adjusted rents at the 20th percentile of the rent price distribution rose in just over half (126) of 238 MSAs, but only modestly. And inflation-adjusted rents at the 40th percentile of the rent price distribution rose in 136 of 238 MSAs (modestly), 142 of 238 MSAs (again modestly) for the 60th percentile of the rent price distribution, and 152 of 238 MSAs for the 80th percentile of the rent price distribution.

While rent levels rose only modestly over the course of the decade, renters' incomes rose more. In fact, the 1990s were a better decade for renter income growth than the 1980s. At the 20th percentile, incomes rose in 170 of the 238 MSAs, with an average real increase of 7.5 percent. At the 40th percentile, renter incomes grew in 174 MSAs; at the 60th percentile, renter incomes grew in 175 MSAs, and at the 80th percentile, renter incomes grew in 204 MSAs.

Given that rents in the 1990s were flat while incomes rose, affordability improved over the 1990s. It improved at the 20th and 40th percentiles in 163 out of 238 MSAs, at the 60th percentile in 156 MSAs, and at the 80th percentile in 177 MSAs. The average rent-to-income ratio for households at the 20th percentile of the income distribution fell by 5.2 percentage points over the decade. While affordability improved, it was still the case as of 2000 that many of the lowest-income renters would have had to pay more than 30 percent of their income to rent a home at a corresponding percentile of rental prices. Those at the 20th percentile of the rental income distribution for their MSA would have paid at least 30 percent of their income on the 20th percentile rental unit in 222 out of 238 MSAs as of 2000, and more than 50 percent in 17 of the 238 areas.

The increased affordability of rental housing over the 1990s was the opposite of the decade before (and after). There were several reasons for this. First, as noted above, the income of renters in many metropolitan areas increased in real terms over the 1990s. This meant that a unit could potentially retain the same inflation-adjusted rent over the decade yet convert from unaffordable to affordable for the simple reason that when incomes rise, affordability improves. Second, the 1990s were a relatively generous period for housing subsidies, as we discuss below. Finally, it would not be until the 2000s that there would be a large increase in the number of subsidized units whose affordability provisions expired (although even when the provisions expired, only a small number of owners eventually opted out of the affordable provisions). As we shall see in our analysis of the 2000 to 2010 period in Chapter Six, all of these positive trends from the 1990s reversed in the following decade.

The Supply of Affordable Rental Housing

In addition to demand dynamics, the rental housing market also experienced changes in the supply of affordable rental housing through the 1990s. These trends are particularly important given that preservation is a supply-oriented concept (as opposed to a demand-side action, such as providing vouchers to households to assist in renting housing). To assess the supply of affordable rental housing and how it evolved between 1990 and 2000, we use the methodology

⁷ For this analysis, we used Public Use Microdata Sample (PUMS) data from the 2011 American Community Survey (ACS) and the 1990 Census (U.S. Census Bureau, 2016), as organized by the Integrated Public Use Microdata Series (IPUMS) project (Ruggles et al., 2015).

used by John Weicher in his 2010 study, which was supported by the MacArthur Foundation (see Appendix A for details).

Weicher capitalizes on the panel nature of the American Housing Survey (AHS) (U.S. Census Bureau, no date-b) to identify affordable rental housing units in a given year and then tracks them to see what has become of them years later. He defines a unit as affordable if its rent is less than 30 percent of the income of a family earning 50 percent of the area median income. He then tracks what happens to each unit, noting that one of five things can happen to a unit over time: It can remain affordable; it can become unaffordable due to increased rent levels; it can become owner-occupied housing; it can become vacant; or it can fall out of the stock. For the current analysis, we apply this methodology to the AHSs of 1991 and 2001 and track what happens to affordable rental housing units over the course of the data.

Estimates using the AHS indicate that, over the course of the 1990s, the overall size of the affordable rental stock increased, although not as rapidly as the housing stock as a whole. There were a little over 23 million affordable rental units in the housing stock in 1991, and there were approximately 24 million affordable rental units in the housing stock as of 2001.

Table 2.2 shows what happened to these units between 1991 and 2001 based on the Weicher methodology. Only about 53 percent of the stock that was affordable in 1991 was still affordable in 2001. About one-third of the 1991 affordable rental housing stock was not in use in 2001. Nearly 20 percent of the affordable rental housing stock disappeared during the decade, and another 14 percent became vacant. Less than 10 percent of units were converted to homeownership. Interestingly, the share of units that increased in price to become unaffordable (this is up-side risk) was much smaller than the share that simply fell out of the housing stock (this is down-side risk).

Using the Weicher approach, one can look backward as well as look forward. We do this in Table 2.3, where we report the sources of the stock of affordable rental housing units in 2001. When we do this, we see that over 50 percent of the rental stock that was affordable in 2001 was affordable in 1991, about the same proportion seen when looking forward. Twenty-four percent of the 2001 units were newly built during the 1990s. The share of ownership units becoming affordable rental units over the period of 1991 to 2001 is about the same as the share of units in 1991 that became ownership as of 2001, suggesting a balance in this dynamic

Table 2.2
Forward-Looking Analysis: Where Did the 1991 Affordable Rental Stock Go in 2001?

| Status of Rental in 2001 | Number of Rentals | % of 1991 Affordable Rental Stock |
|--------------------------|-------------------|-----------------------------------|
| Still affordable | 12,341,507 | 53.2 |
| Unaffordable | 1,412,161 | 6.1 |
| Owner stock | 1,985,876 | 8.6 |
| URE and vacant | 3,145,040 | 13.6 |
| Loss | 4,312,614 | 18.6 |
| Total | 23,197,198 | 100.0 |

SOURCE: 2001 AHS (U.S. Census Bureau, no date-b).

NOTE: URE = usual place of residence elsewhere.

over the decade. Almost 10 percent of the affordable units in 2001 were unaffordable in 1991 but became affordable over the course of the decade. In fact, more unaffordable units became affordable over the decade than affordable units that became unaffordable.

Changes in the Supply of Federally Subsidized Housing

Federally subsidized affordable rental housing stock is a critical concern for preservation because of the expiration of rent restrictions on units produced with some sort of federal rental subsidy. To understand the supply of affordable housing, we look at changes in rents, renters' incomes, and rent-to-income ratios over the same period. To further understand the supply, we examine trends in the federally subsidized rental housing stock and investments in multifamily rental housing more broadly.

Federal government subsidies for rental housing in the United States are delivered through three main vehicles: (1) privately owned but publicly subsidized housing through the LIHTC program and the Project-Based Section 8 program, among other programs; (2) public housing, owned and operated by public-sector agencies; and (3) tenant-based Section 8 vouchers for the rental of unsubsidized housing (Collinson, Gould Ellen, and Ludwig, 2015).⁸ These four subsidy programs are also the largest. Figure 2.2 shows their evolution by number of units. (We list other, smaller federal subsidy programs in Table 2.4.)

In 1990, most subsidized units were associated with either public housing or the Project-Based Section 8 program, with tenant-based Section 8 vouchers at about 80 percent of the volume of the first two programs. Over the 1990s, however, this changed as the federal government made a major investment in subsidized rental housing, resulting in a net increase of about 1.5 million federally subsidized units. Two major trends drove this change. First, tenant-based vouchers became the largest source of units during the decade, as the number of tenant-based vouchers increased by about 50 percent while the supply of public housing and Project-Based Section 8 units remained largely flat. Second, the supply of affordable units created through the LIHTC program increased dramatically, such that by 2000 there were nearly 1 million affordable rental housing units in existence in part because of that program.

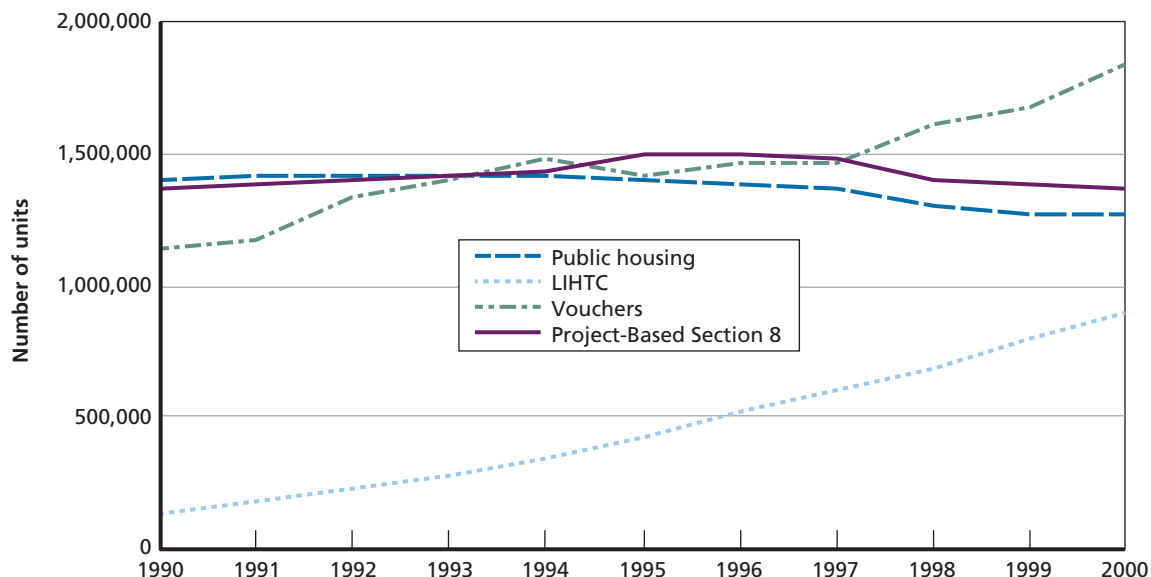
Table 2.3
Backward-Looking Analysis: Where Did the 2001 Affordable Rental Stock Come from in 1991?

| Status of Rental in 1991 | Number of Rentals | % of 2001 Affordable Rental Stock |
|--------------------------|-------------------|-----------------------------------|
| Affordable in 1991 | 12,341,507 | 50.6 |
| Unaffordable | 2,382,042 | 9.8 |
| Owner stock | 2,053,285 | 8.4 |
| URE and vacant | 1,760,053 | 7.2 |
| Addition to stock | 5,840,174 | 24.0 |
| Total | 24,377,060 | 100.0 |

SOURCE: 2001 AHS (U.S. Census Bureau, no date-b).

⁸ *Section 8* refers to that section of the Housing Act of 1937, as amended, codified at 42 U.S.C., Section 1437f.

Figure 2.2
Units of Federally Subsidized Housing, by Program, 1990–2000



SOURCE: Collinson, Gould Ellen, and Ludwig, 2015; National LIHTC database (HUD PD&R, no date-a); HUD's Picture of Subsidized Households (HUD PD&R, 2015).

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As we describe more fully in the following section, preservation is relevant for only a subset of all federally subsidized affordable rental housing—those programs that subsidize the new construction or the substantial rehabilitation of affordable rental units. In the context of the current discussion, the Project-Based Section 8 and LIHTC programs, administered by HUD and by the Internal Revenue Service (IRS), respectively, are relevant from a preservation perspective, as each provides financing for private developers and owners, and in return the owners agree to maintain their properties as affordable for a fixed period of time. Because they add to the supply of units, these are often called supply-side programs.

We note here that, though they are the largest such programs, the Project-Based Section 8 and LIHTC programs are not the only federally subsidized units in need of preservation. Table 2.4 lists the seven largest supply-side federally funded programs (from oldest to most recent) that subsidize the affordability of rental housing. Each of these commits private-sector property owners to preserve affordability for a fixed term, meaning that units built under these programs all face the potential expiration of affordability. As such, all units built under these programs would be candidates for preservation within Window of Opportunity.

Rental Preservation as a Part of “Balanced Housing Policy”

Historically, rental housing has received a fraction of the attention and investment that homeownership has in federal housing policy, as shown by the array of tax policies and agencies to support and subsidize homeownership compared with renting. For example, in 2014 homeownership received \$195 billion of the \$270 billion in government support for housing (Collinson, Gould Ellen, and Ludwig, 2015). In addition, as of 1990, the preservation of

Table 2.4
The Most Common Types of Federally Subsidized Housing for Preservation

| Program Name (Department) | What It Is | Years of Funding |
|---|--|--|
| Section 202 Supportive Housing for the Elderly loan program (HUD) | Low-interest 40–50-year loans to nonprofit owners in exchange for affordability restrictions on rents. Income eligibility rules have changed over time, but generally for low-income elderly. As of 1990, no longer loans but instead capital grants. Projects built since 1974 also receive Section 8 rent subsidies. Estimated 263,000 units financed. | 1959–1990 (loans) 1991–current (capital grants) |
| Section 221(d)(3) Below Market Interest Rate program (HUD) | FHA mortgage insurance for low-interest 40-year loans to private developers, in exchange for owners renting to people of modest incomes. Estimated 159,000 units financed. | 1961–1968 |
| Section 236 (HUD) | FHA mortgage insurance for 40-year loans and mortgage subsidy payments to private developers. In exchange, owners rent to people of modest incomes. Estimated 400,000 units financed. | 1968–1974 |
| Section 8 New Construction, Substantial Rehabilitation, or Loan Management Set-Aside Programs (HUD) | Rental assistance contracts to owners in exchange for rents set at 30% of low-income tenants' income. Estimated 1.2 million units financed. | 1974–1983 |
| LIHTC (Department of Treasury) | Formula-based credits allotted to state and local housing agencies that are then allocated to owners. Owners can reduce taxes for 10 years in the amount of tax credit award. Ceiling rents set for the development that are affordable to households earning 60% area median income. Estimated 2.6 million units financed through 2012. | 1986–current |
| Section 811 Program for Persons with Disabilities (HUD) | Grants to finance construction and rental assistance for very low-income persons with disabilities. | 1990–current |
| Section 515 (USDA Rural Development) | Low-interest loans to developers. Some units also obtain Section 8 rent subsidies. About half receive Section 521 rental assistance. Estimated 400,000 units financed. | 1962–current |

SOURCES: Unless otherwise noted: McCarty and Perl, 2010. Section 202: Haley and Gray, 2008; GAO, 2002. 515 unit count: National Rural Housing Coalition, 2011. LIHTC unit count: HUD PD&R, no date-a. Section 811: Perl, 2013.

NOTES: Smaller programs, such as the Rent Supplement Program, as well as the Rental Assistance Payment Program and some U.S. Department of Agriculture (USDA) rural development programs, such as Section 521, are excluded. *Section 202* refers to that section of the Housing Act of 1959, as amended, codified at 12 U.S.C., Section 1701q. *Section 221(d)(3)* refers to that section of the Housing Act of 1961, as amended, codified at 12 U.S.C., Section 1715l. *Section 236* refers to that section of the Housing Act of 1961, as amended, codified at 12 U.S.C., Section 1715z-1. *Section 811* refers to that section of the National Affordable Housing Act of 1990, as amended, codified at 42 U.S.C., Section 8013. *Section 515* refers to that section of the Housing Act of 1949, as amended, codified at 42 U.S.C., Section 1485. *Section 521* refers to that section of the Housing Act of 1949, as amended, codified at 42 U.S.C., Section 1490A.

existing rental or owned housing received less attention than new construction because the affordability restrictions on most existing federally subsidized rental units had not yet expired. For example, the first properties built through the Section 8 New Construction/Substantial Rehabilitation program were placed in service in the mid-1970s, and had at least a 20-year affordability restriction period. This was common for most HUD programs aimed at private developers, which means that almost all private-sector owners of properties developed with a HUD subsidy would have the option to renew or exit their HUD program sometime between 1994 and 2010. Consequently, concerns about widespread subsidy expirations first material-

ized in the mid-1990s. In response to the growing concern over the upcoming subsidy expirations and the more general need to prevent the erosion of the affordable rental housing supply, the MacArthur Foundation created Window of Opportunity.

What Is Rental Preservation?

In the simplest terms, preservation is extending the affordability of rental homes that are at risk of no longer being affordable for low-income households; as one interviewee put it, it is “extending the useful life of affordable housing.” Generally speaking, there are two types of preservation: preservation of rental homes that are subsidized to be affordable, and preservation of unsubsidized but affordable rental homes. There are a greater number of programs and funding vehicles for the preservation of subsidized rental housing (some are listed in Table 2.4) than for unsubsidized affordable rental housing, which happens to often be in so-called “single family” buildings of one to four units. Indeed, HUD and the government-sponsored enterprises Fannie Mae and Freddie Mac are seeking to address this shortcoming through pilot programs such as the HUD Small Building Risk Sharing Initiative. As a consequence, the preponderance of WOO activity was to preserve subsidized affordable rental housing, though some WOO recipients preserved unsubsidized affordable rental housing and created innovative new means to do so.

To understand what triggers preservation, it is useful to first consider the two ways in which rental units are affordable to low-income families. In some housing markets, prevailing rents in the market are sufficiently low so as to command 30 percent or less of a low-income household’s earnings (i.e., they are “naturally” affordable). In other markets, prevailing rents are higher, and subsidies are required to lower the rent below market rates to make rent affordable for low-income households. Given this framework, preservation comes into play when

1. the local housing market heats up, increasing previously low market-rate rents to levels that are no longer affordable to low-income persons
2. the subsidized property is located in a market in which prevailing rents are unaffordable to poor persons, and one of two things happens: (a) the required affordability period is due to expire, thus requiring a renewal of subsidy for rents to remain affordable, or (b) the owner of the subsidized property has an incentive to opt out of the subsidy early and convert the property to market rates or to condominiums
3. due to low rent levels, buildings (whether subsidized or not) have not been maintained and are at risk of obsolescence and potential demolition.

This simple characterization captures a large majority, but not all, types of preservation activities, which are difficult to include in a single universal definition because of the wide variety in the types of rental owners, the forms of unsubsidized and subsidized affordable rental housing, and the household income levels targeted by those acting to preserve units. Experts with whom we spoke tended to agree that, since the 1990s, the definition of preservation has expanded. As we will discuss in Chapter Four, the definition of preservation carries political implications; the definition is contested and shifting.

The expansion over time in the definition of preservation is reflected in the evolution of the MacArthur Foundation’s definition. In its 2002 request for qualifications (RFQ) for non-profit regional housing preservation leaders, the foundation’s definition focused on the acquisition of existing, occupied properties (whether subsidized or unsubsidized) to either renovate

or financially restructure the property for long-term affordability to low-income tenants. A renewed or new source of subsidy would often be necessary to achieve the renovation or financial restructuring. By 2007, however, the foundation's preservation definition had expanded:

Affordable rental housing is preserved when an owner acts to keep rents affordable for low- and moderate-income households while ensuring that the property stays in good physical and financial condition for an extended period.

Preservation projects frequently involve transfer or sale to a new owner, but existing owners can preserve their properties too. All preservation owners must have a clear mission or legal obligation to maintain the affordability of safe, high-quality rental homes. These owners can be nonprofit, for-profit or even public entities.

Every privately owned, occupied rental property can be a preservation candidate, whether or not it was developed with prior government assistance. Of course, not every existing property can or should be saved. But long-term subsidy contracts can still be retained by transferring them to a replacement or nearby property. (MacArthur Foundation, circa 2007).

This new conception included not only property acquisition but also owners refinancing the properties they already own. It also encompassed more types of actions, such as porting the subsidy from one building to another to retain the overall count of subsidized units. It explicitly mentioned a broader set of owners and property types including privately and publicly owned property. These dimensions were added as the Window of Opportunity initiative evolved and the foundation became more sensitized to the fact that different types and contexts of preservation required particular attention.

How Does Preservation Work?

As noted, there are three distinct channels by which preservation can become a need: strong market conditions, subsidy opt-out or expiration, and building obsolescence. In this section, we describe these channels in more detail, after which we briefly review the challenges to effective preservation efforts. We explore these challenges in more depth in subsequent chapters.

The Dynamics of Preservation: Strong Markets

The preservation challenge posed by strong markets is straightforward. Strong markets typically feature significant economic and population growth, which increases the demand for housing, both in the ownership and the rental segments of the market. This increased demand places elevated pressure on rent levels in three ways. First, for existing units, increased competition for units among renters will give owners pricing power such that they can increase rents. Second, the higher potential cash flows from rental properties might induce existing (long-time) owners to sell their properties to investors or property managers who are eager to maximize the cash flows and returns. Rents typically increase in the wake of such transactions, in part because the new owner capitalizes the building to improve it. These two pressures are exacerbated in locations where a supply response is constrained, due either to limited available land or regulatory barriers to development. Thus, we observe acute preservation concerns in fast-growing coastal markets and markets with significant land constraints. A third effect of the increased demand for housing is supply-oriented and pertains to new buildings. The higher

values for properties across the market are likely to result in more construction of rental properties, which can potentially increase construction costs as builders compete for skilled labor. These higher costs require higher rents in new buildings to ensure that developers meet minimum return requirements.

The Dynamics of Preservation: Subsidy Expiration

Given the costs of construction, it is often impossible to build housing profitably if rents are at levels that will be affordable to low-income households. Construction costs generally increased between 1990 and 2000. This reality was especially true for properties that receive a government rental subsidy because they are subject to a series of increased costs from regulations and complexity of layering resources.

Government subsidies come with other requirements that advance policy interests. The most significant of these in the context of preservation is the requirement that the owner lease a building's units to low-income persons at rents that are affordable to them (i.e., less than 30 percent of the person's income). The housing subsidy and the affordability period both typically have a set term. For example, the subsidy and affordability requirements for a Project-Based Section 8 property continue for 20 years. For an LIHTC property, the subsidy is provided over 10 years, and the affordability requirement exists for 15 years or more. The states that allocate tax credits often require longer affordability periods; 30 years is a common minimum time.

Preservation concerns arise for subsidized housing because owners have multiple options when a subsidy's term ends: Owners can seek to renew or replace the property's subsidy, choose to not renew the subsidy and convert the property to market rate (also known as "opting out"), or allow the property to go into default.⁹ The threat that the property will *not* be preserved at affordable levels when the subsidy expires stems from one of three scenarios:

- *the liquidity risk scenario*: the property owner is unable to find a source of funds to replace the subsidy, and so cannot keep the property subsidized in spite of a desire to continue to do so
- *the downside risk scenario*: the property is functionally obsolete, such that renovation and preservation of affordable units is unlikely
- *the upside risk scenario*: the market is sufficiently strong that a conversion of the property to market-rate prices leaves rents out of reach for low-income persons.

The conversion of a subsidized property to a market-rate property when a subsidy expires does not always result in rents rising to levels that are unaffordable to low-income persons. In markets where prevailing rates are sufficiently low, a conversion to market rate can result in the units remaining affordable. Available evidence about the "post-subsidy affordability of assisted housing" suggests that this is a common outcome in many markets (Blanco et al., 2015). For example, a large majority of the approximately 11,500 early-year LIHTC properties nationally remained affordable with or without a new infusion of subsidy after they reached year 15, which is the point in time when the initial affordable restriction period ends and the owner can request exception from the state agency from the second 15-year extended use period

⁹ Owners can also opt out in some instances prior to the expiration of the affordability requirement. One method is by prepaying a low-cost loan. Prepayment is usually prohibited for a set portion of such loans. A second method is to obtain special permission to sell and convert a LIHTC development, though this is only possible after a 15-year use period.

(Khadduri et al., 2012).¹⁰ In a recent analysis of what happened to Florida properties whose subsidy had expired, 8 percent of 161 “lost properties” were demolished or went vacant, 18 percent were converted to condominiums, 44 percent remained affordable rentals to households at income levels previously served by that property, 14 percent were mixed-income rentals, and only 16 percent became unaffordable rentals (Blanco et al., 2015).

The Dynamics of Preservation: Building Obsolescence

Building owners seeking to maximize returns can either increase rents or reduce operating costs. For properties with low rents, owners seeking to maximize short-run gains often defer maintenance, especially the costly replacement of durable building infrastructure systems, such as windows, elevators, roofs, plumbing, electrical systems, and heating, ventilation, and air conditioning systems. Other strategies to reduce maintenance costs target lower but more frequent costs, such as painting the property or landscaping.

When such a property is at a point where it is no longer habitable or the owner is interested in selling it, potential buyers will need to assess whether it is possible to purchase the property, make the needed improvements, and charge rents that can cover those costs and yield an acceptable return. In cases where the prevailing market rent level cannot support the required expenditures a prospective buyer would need to make—as would be the case in weak housing markets—there are two possibilities. A buyer could purchase the property, demolish it, and build another property on the site. Alternatively, the property could remain unsold, in which case it would become vacant and either enter foreclosure or be a source of blight. In both cases, the affordable units would be lost.

Executing Preservation

Preservation is no easy task. In the case of preserving subsidized rental housing (which was the majority of WOO preservation activity), preservation projects typically involve applications to federal or state agencies for multiple sources of permanent and temporary public funds. Layering several sources of (scarce) funds, such as HUD, Treasury, USDA, state and local bond allocations, and state housing trust funds, is time-consuming and requires a high degree of technical knowledge about the fragmented funding landscape. Obtaining renewed or new funding often requires a lengthy approvals process from one or more parts of federal agencies, which themselves can be siloed and have conflicting procedures, which adds to costs.

The time required to layer public financing sources poses particular challenges for preservation-oriented owners’ ability to compete against often faster-moving purchasers who do not intend to operate affordable rental housing and thus do not use public sources of funds.

Even preserving what have been unsubsidized affordable rentals can require at least modest public sources, such as a tax abatement or subsidized loans for rehabilitation of the property. Theoretically though, unsubsidized affordable rental housing can be preserved through entirely unsubsidized means (e.g., market-rate loans for rehabilitation), although the added cost of doing so must presumably be recaptured in the form of at least modestly increased rents that could nonetheless remain affordable.

Regardless of whether preservation occurs for subsidized or unsubsidized rentals, nonprofits are typically smaller and less well-capitalized than their larger, for-profit developer competi-

¹⁰ However, the continued affordability of LIHTC units after year 15 is not entirely the result of market rents being at or below LIHTC rents. This is because many LIHTC properties are subject to other use restrictions that continue after year 15, or are owned by mission-oriented owners.

tors. The lack of liquid capital—whether internal reserves or lines of credit from banks—has historically prevented nonprofit preservation owners from being able to move quickly enough with bridge funds to acquire desirable properties.

Through Window of Opportunity, the MacArthur Foundation sought to address several of these challenges by providing greater liquidity to preservation owners in the form of long-term, low-interest loans, thereby building preservation owners' capacity and standing to influence policy; by seeding loan funds and financing vehicles that provide temporary financing to numerous preservation owners and to innovate new tools for the preservation of both subsidized and unsubsidized rental homes; by increasing the transparency and simplicity of preservation transactions through policy reform; and, to the extent possible, by standardizing preservation practices among preservation owners to facilitate better access to more and larger sources of private capital. The MacArthur Foundation also funded advocacy and research organizations and state and local governments as part of a comprehensive approach to improve the policy context for preservation.

Preservation from the 1980s to Today

Subsidy expiration became a concern as early as the 1980s but increased in significance during the 1990s, when affordability restriction periods began to end for the first generations of federally subsidized, privately owned developments. For example, subsidies for Section 202 properties financed with long-term loans in the 1960s expired as early as 1999, at which point there were no affordability requirements for property owners. Similarly, LIHTC properties built from 1987 to 1989 had a 15-year affordability period, leading to expirations in 2002, at which point owners could recapitalize the development and convert it to market-rate housing.¹¹ As one interviewee put it,

Preservation is like a chronic condition. Every year, “X” percent of the inventory of regulated affordable rentals is going to be at risk. Out of that “X” percent, maybe 95 percent have a down-side risk, 5 percent have an up-side risk, and so every year you should find a way to deal with the “X” percent that are rolling into their risk profile. These come in cohorts or waves that are reasonably predictable.

Preservation from the 1980s to 2000

Preservation activities in these years generally pertain to HUD- and USDA-assisted privately owned multifamily rentals. As Table 2.4 shows, the first such housing was funded in 1959. The programs spawned a public-private industry in the 1960s as an alternative to government ownership of subsidized housing. By the 1970s, a group of nonprofit affordable developers had formed, the majority of whom were small community development corporations (CDCs) dedicated to a specific neighborhood, city, or town. In 1977, the federal government enacted the Community Reinvestment Act in response to the fact that financial institutions were not lending at high levels where the collateral was property in low- and moderate-income neighborhoods, causing disinvestment and accelerating decline. This act set lending goals for regulated financial institutions to lend to these segments of their communities. Community Reinvestment Act lending has since become an important source of funds for preservation.

¹¹ This was changed as of 1990 to a federally required 30-year affordability period, but many states (which administer LIHTC) opt to require a longer affordability period.

In very general terms, preservation activities have followed the waves in which properties were built with available subsidies. As a preservation expert told us, in the first half of the 1980s, for example, the refinancing of Section 236 and Section 221(d)(3) properties was a dominant preservation activity, and in the second half of the 1980s, the first market-rate conversions of the earliest subsidized properties occurred, triggering a counterreaction and the passage of the Emergency Low Income Housing Preservation Act in 1987. In 1986, the Tax Reform Act created the LIHTC program, which has since become the single largest program for creating affordable, subsidized rental housing in the United States and is also the primary source of funding for preservation. A financial services and legal industry grew around the LIHTC program, setting standards for the industry. For example, syndicators are intermediaries that find investors who wish to buy the tax credits that developers have competitively obtained from the state housing finance agencies who award them.

In the first half of the 1990s, when “upside risk” was the dominant concern, preservation activities were dominated by the Emergency Low Income Housing Preservation Act and its successor, the Low Income Housing Preservation and Resident Homeownership Act. These were established to prevent subsidized housing from converting to unaffordable market-rate rents—as one HUD field staff person put it, “convincing owners to stay in, or [else convincing] owners [to sell] projects to other entities that would keep them affordable.” By the mid-1990s, funding through these two vehicles had largely run out; the federal law was changed to allow owners to prepay their federal debt on subsidized properties and thereby get out from under regulatory agreements. HUD created “enhanced vouchers” to protect the residents who lived in the properties that were converting to market rate. As one interviewee described,

when you [the owner] go market you are obligated to keep renting to the same people you were renting to before but at your market rents, and we the government will subsidize the difference via a new form of voucher to subsidize the difference between what the tenants are currently paying and what your market [rent] is.

Throughout the 1980s and 1990s, a new set of developers responded to LIHTC subsidies. This group differed from those who had worked with the older subsidy programs. Although LIHTC tax credits for preservation were later eligible to refinance some of the “old programs,” interviewees spoke to us of “two different industries” in the 1990s, reflecting differences between traditional owners and those who were attracted to the LIHTC program.

In concept, preservation needs are predictable, in the sense that the year in which the required affordability period ends for subsidized housing is known. But proactively scanning the housing inventory is predicated on the availability and merging of data on subsidy programs for the creation of housing and means by which to assess the level of risk that those properties would be lost from the affordable housing supply. Interviewees reported that data and forecasting methods were far less available and common in the 1980s and 1990s compared with post-2000. As one interviewee relayed, “I feel like the 90s was a mad scramble in that . . . there was a flurry of activity that was really important and it started to lay the foundation but that we did not really have a system in place.”

Preservation from 2000 to 2015

Preservation activities in the 1990s spilled over into the 2000s, with the notable introduction of the Mark-to-Market program in 1997 and its enhancement in 2001. Mark-to-Market

allowed for the renewal of expiring Section 8 contracts (and protected tenants if the owner did not wish to renew the contracts), while its successor program, Mark-Up-to-Market, involved adjusting Section 8 contract rents to market rates. Interviewees described new business opportunities due to the recapitalization of project-based Section 8 and HUD properties through the combination of the Mark-to-Market program, 4 percent LIHTC credits, and volume cap bonds. Compared with the 1990s, preservation “grew up” and got ahead of the curve by anticipating upcoming expirations or opt-out periods and re-underwriting properties to infuse them with capital for building system renewal and refreshed subsidy. As we discuss in Chapter Five, large owners migrated toward preservation in response to the incentives within the LIHTC program for preservation in a majority of states. Since 2010, numerous interviewees recounted the involvement of a newer set of investors, such as overseas investors looking for 3–5-year returns, which threatens the long-run, sustained preservation of affordable rental property. Another change in preservation over this time was the expansion of preservation owners into new asset classes—particularly nonsubsidized affordable housing. As an interviewee put it, “as a field, affordable housing is considered to be focused solely on the low-income housing tax credit, but the reality is that 75 percent . . . of the low-cost rental housing in the United States is in non-LIHTC, nonsubsidized product.”

Preservation actions have diversified throughout the 2000s in ways other than expanding into new asset classes. According to a wide variety of preservation experts we spoke with, the current preservation focus has expanded to include

- maintaining the long-term affordability of unsubsidized “naturally occurring” affordable multifamily rentals
- preserving the subsidy by porting the subsidy from one location to another but not necessarily preserving the building
- attracting new nontraditional sources of funds into housing such as healthcare dollars into senior living
- long-term preventative thinking about continued affordability of housing through better asset management and increased energy efficiency to control variable utility costs
- delivering and preserving affordable housing within mixed-income settings.

Spending on Preservation

Overall spending on preservation is difficult to determine, for several reasons. First, as already noted, there are different definitions of preservation. Second, as we discuss later in this report, there is a myriad of federal, state, and local funds that can be used for preservation, which makes calculating the true level of spending on preservation challenging. Finally, as discussed later in this report, there was limited data infrastructure to track spending on preservation activities. One way to understand the level of spending on preservation is to look at the amount and share of LIHTC investments devoted to the preservation of subsidized affordable rental housing. Data from the 1990s is scarce; what little we know comes from the National Council of State Housing Finance Agencies, which indicates that preservation was only a priority through a direct set aside of 9 percent tax credits for three states as of 1995, and this only increased to seven states as of 2000. (We revisit these data to examine 2000–2010 in Chapter Six.)

Conclusion

The landscape for affordable rental housing in the years leading up to the start of WOO was unsettled. There was widespread unaffordability of rental housing for low-income households as of 1990, which improved modestly over the course of the decade but not enough to make affordability widely within reach. Rents remained essentially flat through the decade while income rose, causing affordability to improve, but only somewhat. For example, the lowest-income renters in 2000 would still have had to pay more than 30 percent of their income to rent a home at a corresponding percentile of rental prices in more than 90 percent of U.S. metropolitan areas.

Supply-side dynamics suggested troubling signs for preservation. An analysis of the evolution of the affordable rental housing stock from 1991 to 2001 shows that nearly one-third of affordable units in 1991 were no longer a part of the rental market in 2001 (compared with 6 percent of the 1991 supply where rents rose to become unaffordable by 2000), indicating that obsolescence was a larger threat than gentrification to the amount of affordable housing stock that remained affordable over the decade. All privately owned units with a HUD supply-side rental subsidy, including the project-based Section 8 program—one of the largest federal rental housing programs—were either approaching or at the point where rent restrictions were expiring, introducing a new potential source for losses of affordable rental housing units. With this context in mind, in Chapter Three we turn to the Window of Opportunity initiative. In Chapter Six, we analyze the broad trends in affordable rental housing in the years in which WOO operated.

Window of Opportunity

In 1999, to address the potential loss over the near term of federally subsidized affordable rental homes due to subsidy expiration, the MacArthur Foundation identified preservation as one response to help slow that loss. By focusing on rental housing at a time when U.S. philanthropic focus for low-income households was on asset-building—particularly homeownership among low-income households¹—the foundation was taking an unusual step. Starting with a pilot loan in 2000 to a nonprofit developer to preserve unsubsidized rental housing, the foundation incrementally created what would become a 20-year initiative that it called Window of Opportunity. Through it, the MacArthur Foundation has awarded \$187 million in loans and grants. It is the largest philanthropic initiative focused on preserving affordable housing in the United States. This chapter provides an overview of the initiative, and then describes in detail each of its seven core strategies. Chapter Four then illustrates four of these strategies via case studies.

Overview

The Launch of Window of Opportunity

The MacArthur Foundation first learned of the importance of preservation in 1999 when a program officer attended a Chicago symposium at which a panelist, Michael Bodaken of the National Housing Trust, spoke on expiring subsidies on rental housing for low-income people. That chance meeting led to the foundation issuing a long-term low-interest loan (called a program-related investment, or PRI) in 2000 to a new joint venture of the National Housing Trust and Enterprise Preservation Corporation to create a nonprofit dedicated to preserving at-risk affordable rental housing nationally. As a staff member described it, the foundation took an initial approach of “let’s do a transaction; let’s see what we learn.”

At the time it was first issued, the PRI was not part of a larger preservation strategy. But the new president of the MacArthur Foundation at the time, Jonathan Fanton, was initiating changes within the foundation to make grant-making more systematic. The organizational change was partly in response to a commissioned evaluation of the foundation’s 15 years of PRI-making² that recommended that PRIs be part of broader strategies rather than made

¹ For example, in 1998, the Ford Foundation announced a \$52 million initiative to help 35,000 low-income households buy homes, which the Ford Foundation believed was the largest foundation grant for homeownership (Demko, 1998).

² The MacArthur Foundation first began issuing PRIs in the 1980s in the areas of community and economic development, creation of affordable housing, stimulation of business formation and growth, construction of community facilities such as child care centers, and provision of savings and loan products to low-income and underserved consumers. The 2000 PRI

opportunistically in an isolated fashion. With direction from the foundation's board of directors to double the amount of PRIs issued from \$100 million to \$200 million (across a variety of topics internationally and domestically) and to issue the loans in an integrated fashion, two MacArthur Foundation program officers began to develop a preservation strategy. The shift in mindset within the foundation was from doing a series of "good things" by issuing loans to worthy organizations to identifying a large problem that creative use of PRI capital could help address when made in concert with a grant-making strategy.

To develop the first iteration of the preservation initiative, two program officers took an information tour in 1999–2000, meeting with developers/owners who then referred them to other developers/owners who had executed or helped design creative preservation transactions. By 2001, the foundation had learned from this tour that it could issue PRIs to finance products such as loan funds and for "walking around [predevelopment] money" for nonprofit developers/owners to compete for with for-profit developers who had deeper pockets that enabled them to more quickly acquire properties.

That year, the MacArthur Foundation's board of directors approved the first iteration of the preservation initiative that was to be later named Window of Opportunity.³ Around this time, the MacArthur Foundation formulated the goal that it would directly invest in nonprofit owners (as opposed to specific real estate transactions) and special-purpose vehicles, such as loan funds, to preserve and improve 100,000 rental homes. The 2001 version of the initiative budgeted \$45 million for PRIs and, to a lesser extent, grants to be issued over three to five years for three purposes: (1) \$10 million in PRIs to 10–15 large nonprofit developers/owners as working capital and predevelopment funds that would allow them to preserve 100,000 units over five to ten years; (2) \$30 million in PRIs for seed funds for special-purpose vehicles, such as a CDFI's special-purpose loan fund; and (3) \$5 million in grants for research, policy analysis, and communications.

To accomplish the first purpose, in 2002 the foundation issued a request for qualifications (RFQ) for nonprofit regional preservation leaders, through which it would select as many as ten nonprofit developers/owners (that must each own at least 1,000 units in their portfolio to qualify) to receive \$1 million to \$3 million each in PRIs. From 55 original applicants, the MacArthur Foundation ultimately selected five for PRIs and an additional seven "emerging" developers/owners for smaller grants to enable them to develop capacity and better business practices for later consideration for PRIs.

Even though the focus of the WOO initiative expanded over time, nonprofit developers/owners remained at the core of WOO. Federal and state policy change was the ultimate desired goal, and nonprofit owners, advocates, and (later) local and state government agencies were the means by which the foundation intended to achieve the goal. The main idea, according to internal MacArthur Foundation documents, was to "create the conditions in which significant long-term policy change might be possible" by investing in nonprofit developers/owners who would be big enough to (1) merit inclusion in the sets of developers from whom state housing finance agencies⁴ sought policy feedback and (2) generate preservation transaction innovations

was its first to a specific preservation owner, as compared with financial intermediaries, such as community development financial institutions (CDFIs).

³ Based on a 2001 MacArthur Foundation strategy memo.

⁴ The Department of Treasury administers by formula to state housing finance agencies LIHTCs, which are the largest single source of subsidy for the construction and preservation of affordable rental housing in the United States. State hous-

from a wide variety of housing markets that could influence preservation policy reform at federal agencies and possibly through federal legislation.

The MacArthur Foundation had a two-fold goal for nonprofit owners to influence policy through the practice of preservation transactions. As a foundation staff person described,

One of the strongest ways that we wanted to get at policy is to fund groups that were doing transactions through which policy changes could be derived. . . . What is the power of individual transactions to drive larger policy . . . as opposed to overt frontal advocacy. It was always “What can they do through practice to affect policy?”

A former foundation employee put it another way:

It was really trying to learn from doing and from actual transactions how to make preservation more feasible, streamlined, part of the vernacular around what had been an expiring-use crisis. [It was] identifying barriers in the regulatory world that HUD could change, FHA could change, and so it wasn't just that transaction, it was an inductive approach to policy change.

Enabling nonprofit owners to be effective ambassadors for preservation was the chief, but not sole, motivation for the constellation of complementary strategies that developed over time within the WOO initiative. For example, specialized financing vehicles were intended to boost scarce funding from which nonprofit owners could draw; better data and risk assessment tools were to help developers/owners target the highest-need properties in a more systematic fashion; networks of owners would boost their policy impact and spread best practices; and national advocacy organizations could complement owners by advocating for change particularly at the state level, where the chief sources of funds for preservation lie.

Timeline of Window of Opportunity

The following timeline shows the full chronology when MacArthur enacted the set of strategies described below. WOO occurred in roughly two periods. In the first, the MacArthur Foundation focused on nonprofit owners and seed funding for financial intermediaries to create funds of benefit to nonprofit preservation owners. Although WOO was always dubbed “policy through practice,” in the second period, the MacArthur Foundation’s focus on policy impact solidified as a larger group of nonprofit owners were funded with the goal that they be ambassadors for preservation and state public-sector organizations became explicit WOO grantees.

Period 1: Focus on Owners and Financial Intermediaries

- 2000: MacArthur issues first housing preservation PRI.
- 2001: MacArthur convenes Preservation Policy roundtable to vet preservation initiative strategy with 14 experts.
- 2002: MacArthur issues regional preservation leaders RFQ to select ten regional nonprofit owners.

ing finance agencies must allocate the tax credits to developers through a competitive process specified in their state-created qualified allocation plans.

- 2003: Board approves first iteration of Window of Opportunity, funding it at \$45 million with a three- to five-year horizon.
- 2003: Awards totaling \$13.5 million made to ten regional nonprofit owners.
- 2003: Board approves second iteration of WOO, which formally names the initiative as Window of Opportunity, funds it at \$50 million, and sets a ten-year horizon and a goal of funding developers/owners who preserve 100,000 units. MacArthur hosts two-day national conference that is the first ever devoted exclusively to preservation that includes full range of preservation-related actors.

Period 2: WOO Expands to Include More Owner Recipients and Focuses on States

- 2007: MacArthur expands group of nonprofit owners from initial 10 to 25.
- 2007: WOO grants funds to help form the The Preservation Compact in Cook County.
- 2007: Board approves third and final iteration of WOO, which expands the initiative from \$50 million to \$150 million. MacArthur launches State and Local Housing Preservation Leaders initiative.
- 2007: MacArthur sponsors National Policy Forum to identify policy and practices to preserve 1 million affordable rental homes.
- 2008: MacArthur issues State and Local Housing Preservation Leaders initiative request for proposal.
- 2009: Twelve jurisdictions awarded a combined \$35 million through the State and Local Housing Preservation Leaders initiative.
- 2009: MacArthur and National Housing Conference co-sponsor Housing Preservation Symposium featuring state and local best practices in preservation.
- 2010: First-ever White House conference on rental housing; held at HUD.
- 2011: WOO modified to formally include multifamily rental energy efficiency as a preservation strategy for grant-making and lending.
- 2014: Last WOO grants and loans issued; included \$187 million in loans and grants.
- 2020: WOO initiative will end when last PRI loan payments are made.

Goals and Components of Window of Opportunity

After two years of loans and grants for preservation, the MacArthur Foundation publicly launched the initiative in 2003 with the new name Window of Opportunity. This second iteration of the initiative was funded at \$50 million instead of \$45 million and had a ten-year rather than a three- to five-year horizon. Its new goal was to “stimulate lasting policy reform” that could affect the preservation of 1 million affordable rental homes by 2013 (not all with MacArthur funding, but rather through setting a policy framework). The 1 million number was about the projected rate of loss of affordable rental housing from 2003 through 2013, according to the Joint Center for Housing Studies (1999).

In recognition of the stronger focus on policy, the second iteration of the initiative doubled the budget (from \$5 million to \$10 million) for documentation and communications “in ways that mobilize champions to propose and lead the enactment of necessary reforms” (MacArthur Foundation internal document). A smaller change was to convert \$2.4 million of what was budgeted for PRIs to grants for developers/owners because the 2002 RFP process revealed that many large nonprofits were not yet “PRI ready,” but instead first needed capacity-building grants.

The third and last major iteration of WOO came in 2007, when the MacArthur Foundation tripled its commitment from \$50 million to \$150 million and tripled its goal of directly investing in nonprofit owners and special-purpose vehicles to preserve and improve 300,000 rather than 100,000 rental homes. This iteration included several additions, such as naming Chicago and New York City “key cities” targeted for \$25 million of investment and adding \$15 million to lend to additional nonprofit owners, raising the total to 30 entities by the end of WOO in 2020. But the biggest addition was launching in 2007 the State and Local Housing Preservation Leaders initiative, funded at \$35 million for innovative public-sector proposals to preserve privately owned affordable rental homes. In 2008, the MacArthur Foundation issued a request for letters of intent, which 80 localities/states submitted, from which the MacArthur Foundation ultimately funded 11 city or state government agencies to fuel their preservation initiatives.

In 2010, the MacArthur Foundation announced that the initiative had ended its direct investment phase and launched its policy phase. In reality, a clean break between direct investment and policy did not take place, since direct investment in developers/owners, networks, and financial intermediaries has continued. But the ambition for WOO as of 2010 was not only to preserve 300,000 rental homes through direct investment in owners and special-purpose vehicles by 2020, but for preservation to be a “central element of a reinvigorated national housing policy” (MacArthur Foundation, 2009). The policy focus within the initiative extended beyond what MacArthur staff referred to as “small ‘p’ policy,” which in this case was trying to influence how nonprofits and government agencies do their work, to “big ‘P’ Policy,” meaning regulations and legislation.

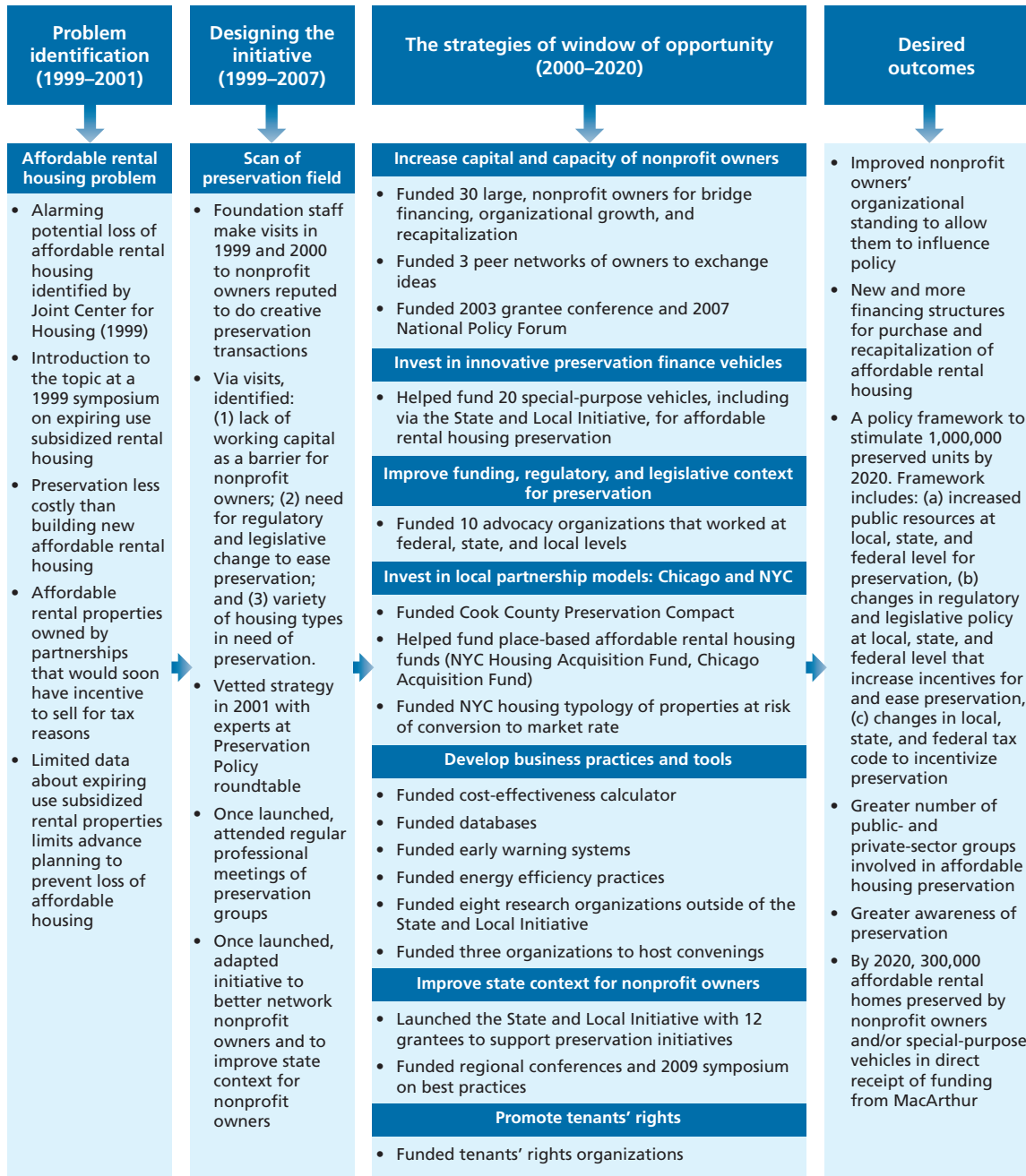
Figure 3.1 summarizes from left to right the chronology of the WOO initiative, starting with problem identification, then designing the initiative, then the full expression of WOO’s seven strategies, and then the foundation’s stated desired outcomes. A fuller explanation of each of the seven strategies is provided in another section below.

To achieve the outcomes shown in the right-hand column of Figure 3.1, the WOO initiative has ultimately adopted both a bottom-up and a top-down approach by funding actors who worked at state, multistate, and federal levels. This multipronged approach was intended to be mutually reinforcing, as depicted in Figure 3.2. WOO grant and loan recipients are shown in purple in the figure, and the arrows indicate intended direction of influence or support. Text boxes appended to each recipient group describe the MacArthur Foundation’s goals for that group. As a MacArthur Foundation staff person told us, they were trying to “build a network of people around the country who were working on housing preservation to help them not only talk with one another, compare best practices, but also get a common vocabulary to describe the problem and the opportunity and to maybe improve the image of rental housing.”

In essence, the idea was to fuel an ecosystem for preservation by

- funding a “cadre” of nonprofit preservation owners who not only preserve affordable rental units but also generate lessons learned and innovations to act as policy ambassadors for preservation
- seeding special-purpose vehicles and financial intermediaries who lend to preservation owners in an attempt to “bridge the subsidized sector with the conventional market capital sector,” which would hopefully bring new sources of capital to preservation
- networking the nonprofit owners and public-sector partnerships together to share information and cross-pollinate innovations

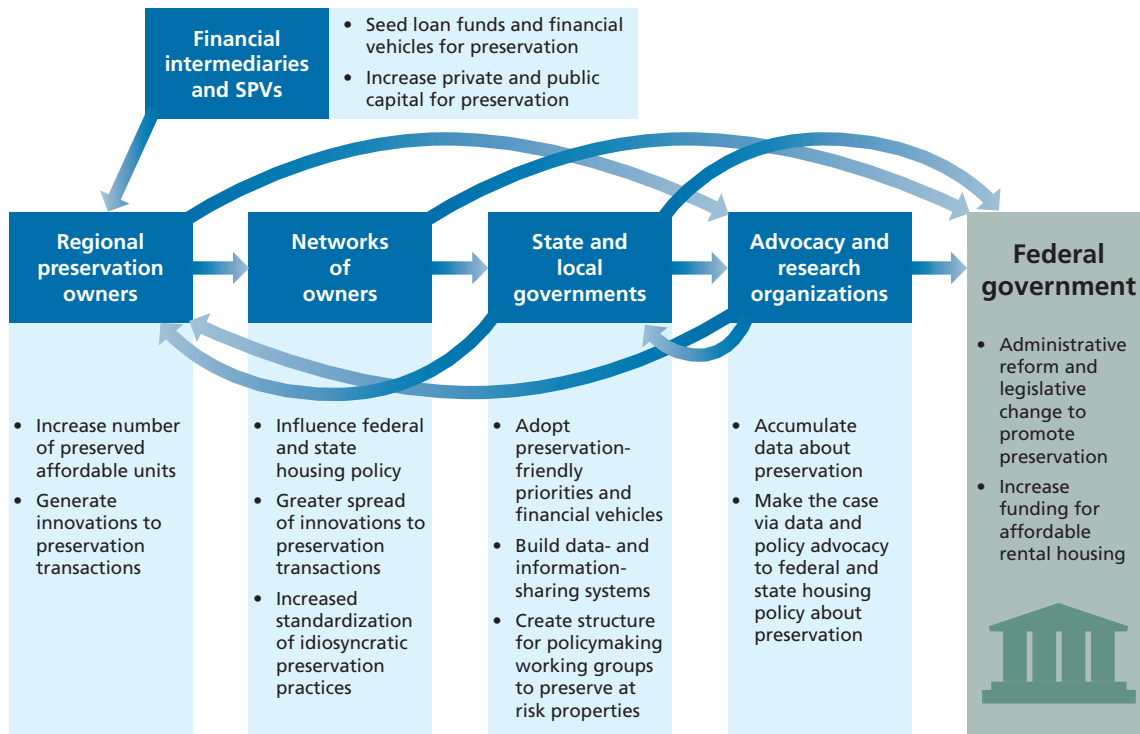
Figure 3.1
Overview of the Design of Window of Opportunity



RAND RR1444–3.1

- funding advocates and researchers to compile data and make the policy case for preservation
- funding the primary preservation funder (i.e., state housing finance agencies) by issuing grants and loans to state and local public-sector partnerships to bolster preservation
- investing in regional interagency partnerships in Chicago and New York City to retain affordable rental housing
- investing in advocacy for low-income tenants rights.

Figure 3.2
Window of Opportunity Investments Were Intended to Be Mutually Reinforcing



RAND RR1444-3.2

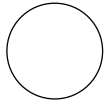
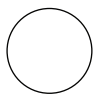



















Investments Made Through Window of Opportunity

As shown in Figure 3.1, there were ultimately seven strategies within Window of Opportunity. Together, staff and consultants have referred to these strands as a “bouquet” of initiatives, and they were incrementally developed in recognition of the significant variation across regional housing markets and the decentralized funding landscape for affordable housing. Instead of a one-size-fits-all approach, the idea behind WOO was to seed regional, multistate, and state actors to develop preservation strategies that fit their local needs, while also fostering innovations that could apply across many jurisdictions and ultimately amount to a national policy framework.

The WOO initiative was ambitious in terms of its goals, strategies, and design. It included 48 PRIs summing to \$130,250,000 and 158 grants summing to \$56,444,564. As Table 3.1 indicates, the largest single recipients within WOO were financial intermediaries and special-purpose vehicles (e.g., the New York City Acquisition Fund) and nonprofit owners of affordable rental housing.

The entire set of recipients of these loans and grants spans a wide range of purposes and actors, including universities, real estate developers, advocacy organizations, financial institutions, and networks of nonprofit mission-oriented developers engaged in preservation. Although the geographic scope includes all regions of the United States, the foundation has invested most heavily in two particular metropolitan areas—the Chicago area (through The Preservation Compact) and New York City. The foundation selected these two cities given its commitment to contributing to its home city of Chicago and the critical mass of preservation activity that had developed in New York City.

Table 3.1
Window of Opportunity Funding, by Recipient Type and Purpose

| | Financial Intermediaries and SPVs | Nonprofit Owners | Research and Policy Organizations | Government | Peer Networks | Total |
|---|---|---|---|--|--|---|
| Capital and capacity building |  \$76.2 million |  \$59.8 million |  \$835,000 | |  \$450,000 |  \$137.3 million |
| Policy analysis and research |  \$5.6 million |  \$350,000 |  \$28.5 million |  \$6.4 million |  \$900,000 |  \$41.7 million |
| Peer exchange, communications, convenings | | |  \$3.1 million |  \$25,000 |  \$4.6 million |  \$7.7 million |
| Total |  \$81.8 million |  \$60.2 million |  \$32.4 million |  \$6.4 million |  \$5.9 million |  \$186.7 million |

As shown in Figure 3.2, the initiative was also ambitious in trying to invest in each point along the metaphorical “supply chain” of preservation. The MacArthur Foundation had in mind the interdependence of the variety of actors within the constellation of preservation, and it sought to mutually reinforce these actors through complementary investments. Similarly, although Table 3.1 is an unduplicated count of grants and loans to show the primary purpose of allocated funds, many of the MacArthur Foundation’s investments served more than one of its seven strategies. For example, a grant to the Furman Center to develop an early warning system for units at risk of loss from the affordable rental housing stock in New York City served both its strategy to invest in local partnerships (in this case, New York City) and its strategy to develop business practices and tools. For the sake of describing the strategies below, we provide duplicated counts of grants and loans in instances where a given grant or loan applied to more than one strategy.

Strategy to Increase Capital and Capacity to Nonprofit Owners

The MacArthur Foundation issued a combined total of \$60 million in the form of loans and grants to a total of 30 nonprofit developers/owners over the course of WOO. Of this \$60 million, 91 percent was loans (i.e., PRIs), and the loans typically lasted seven to ten years and carried low interest rates of 1–3 percent. As an example, the MacArthur Foundation issued a \$1.5 million PRI in 2008 to Gulf Coast Housing Partnership (located in New Orleans, Louisiana) for the “production and preservation of 10,000 affordable rental homes in the Gulf Coast Region.” The loan had a ten-year term and a 2 percent annual interest rate.

As previously described, the foundation evolved from making loans to qualified nonprofit owners on a one-by-one basis to lending as a part of a strategy to build a cadre of large, high-capacity nonprofit owners who could be ambassadors for preservation. That strategy to build a cadre of large nonprofit owners started with the MacArthur Foundation issuing an RFQ in 2002 for regional nonprofit preservation leaders. The intention of the open-call request (as opposed to inviting only particular developers to apply) was to use competition to encourage nonprofit owners to be creative, to learn about organizations that the MacArthur Foundation might not already know about from its information tour, and to encourage large nonprofit owners in the business of new construction to add preservation to their portfolios.

From the start, the MacArthur Foundation explicitly focused on nonprofits that worked across several housing markets and had portfolios of 1,000 homes or more, which is large in terms of scale of nonprofit affordable housing owners. The MacArthur Foundation staff's thinking was that these organizations could scale to a critical mass, possess the financial strength to allow them to hold and operate affordable rental housing for the long term, and be sufficiently large so as to be effective advocates for policy change at the state and at the federal levels.

MacArthur's PRIs were long-term unsecured debt provided at the enterprise level to owner entities that sponsored preservation transactions, which was a new and riskier lending practice at the time compared with the MacArthur Foundation's ongoing practice of issuing PRIs to intermediaries such as CDFIs that, in turn, issued loans to many borrowers, rather than a single nonprofit owner. This practice was also risky in the sense that nonprofit corporations typically have little net worth and do not generate large streams of income, which depletes the capital base the foundation could rely on for repayment of its loan. More importantly, the PRIs represented a shift in thinking about how nonprofits should generate returns for the purpose of building the capacity of the organization. As a MacArthur consultant summarized:

I think the foundation world has changed generally to understand that, even if you say that you're a nonprofit, that's a tax status, and that you have to be generating the profits from your operations that can be retained in the organization and build up the organization's net worth.

In other words, an intermediate goal of the PRIs was to encourage a critical mass of nonprofit owners to build up their net worth with an eye toward their long-term sustainability. This would make these organizations more attractive in the capital markets and, in turn, increase the volume of units preserved and enable nonprofit owners to be in "better standing" and thus more effective ambassadors for preservation policy change.

To enhance nonprofit owners' policy impact and to promote best practices, the foundation also gave operating grants to three peer networks of nonprofit owners: Stewards of Affordable Rental Housing for the Future (SAHF), the Housing Partnership Network, and NeighborWorks (to form Strength Matters). Ultimately, the MacArthur Foundation awarded 22 grants to these three networks amounting to \$4.6 million during the period from 2002 to 2014. In this manner, WOO augmented its ground-up approach to preservation by encouraging the horizontal spread of ideas and practices through networks. Such networks are intended to (1) help practitioners and policymakers navigate their way through notoriously time-consuming and complex preservation transactions; (2) increase standardization of practices among preservation owners, which could ultimately help owners access larger amounts and a more diverse set of private capital; and (3) organize policy initiatives, such as requested

regulatory reform, legislative advocacy, and design changes such as energy efficiency reforms. Chapter Four includes a case study of one of these three peer networks, SAHF.

Strategy to Invest in Innovative Preservation Finance Vehicles

As shown in Figure 3.2, the MacArthur Foundation also provided seed funds to special-purpose vehicles to enhance preservation. In total, the foundation has loaned \$76.2 million to 21 organizations for special-purpose vehicles, such as loan funds. (These figures include PRIs to state loan funds through the State and Local Housing Preservation Leaders initiative, which is described below.) Examples of lending within this category include a \$5 million loan made in 2005 to the New York City Acquisition Fund, which is a housing financing facility for developers seeking to build and preserve affordable housing throughout New York City. Another example includes a \$5 million PRI issued in 2011 (at 1 percent interest and a ten-year term) to the Community Investment Corporation (CIC), a CDFI located in Chicago, to increase the lending capacity of the Energy Savers Loan Fund, which was an Illinois-based fund for energy conservation improvements to multifamily rental housing. A case study in Chapter Four describes one innovative special-purpose vehicle, the Housing Partnership Equity Trust, in which the MacArthur Foundation invested through WOO.

The intermediate goals of the special-purpose vehicle strategy were to seed innovative finance vehicles that could be replicated elsewhere and to leverage other private capital to meet the end goal of the preservation of 1 million homes by 2020.

Strategy to Invest in Local Partnership Models: Cook County and New York City

The MacArthur Foundation issued a total of 53 grants or PRIs to 24 organizations working on preservation in its two “key cities” of New York City and Cook County, Illinois. This count includes some of the loans and grants already described above, such as those to innovative preservation finance vehicles like the New York City Acquisition Fund or to preservation owners for the preservation of affordable rental housing in the Chicago area.

Reflecting the interagency structure of the The Preservation Compact (described in more detail in a case study in Chapter Four), the MacArthur Foundation gave a wide variety of grants and PRIs to organizations in and around Chicago. The foundation gave funds to organizations to run the compact meetings (Urban Land Institute and then CIC); participate in the meetings (e.g., Metropolitan Planning Council, Business and Professional People for the Public Interest, Center for Neighborhood Technology, Chicago Rehab Network); conduct research on the Cook County housing market (DePaul University, Recap Advisors); develop new loan funds (CIC, Local Initiatives Support Corporation); conduct advocacy and tenants’ rights work (Chicago Rehab Network, Sargent Shriver National Center on Poverty Law, Urban Homesteading Assistance Board, Chicago Housing Initiative); and preserve housing (Chicago Community Loan Fund, Mercy Housing Lakefront, Century Place Development Corporation, Lakefront Supportive Housing, National Housing Trust-Enterprise).

The New York City–related investments were less numerous and consisted primarily of the New York City Acquisition Fund and a series of research- and tool-related grants. The foundation allocated grants to develop a New York City database of subsidized rental housing, a technology platform to manage government-assisted rental housing, an early warning system of housing at risk of not being preserved, and research on subsidized affordable rental housing in New York City (Mayor’s Fund to Advance New York City, Fuhrman Center for Real Estate and Urban Policy, New School). It also funded a symposium on preservation of New York City

affordable rental (City of New York Department of Housing), a developer to preserve affordable rental housing (Phipps Houses and Homes for New Yorkers), and an organization to conduct advocacy work (Urban Homesteading Assistance Board).

The foundation's goal from the concentrated place-based giving within these two cities was to create a local infrastructure to support preservation that could theoretically be replicated in other cities. This infrastructure included generating systems for collecting, preserving, and analyzing data to identify the preservation problem; the creation of interagency mechanisms or structures, such as an acquisition loan fund or interagency task force to prioritize and co-fund preservation; and advocacy at the city and state level to secure continued public funds for preservation.

Strategy to Develop Business Practices and Tools and Research

The MacArthur Foundation issued a total of 35 grants to 23 nonprofit and public-sector organizations to

- host a series of symposiums and conferences on preservation
- create or expand state or city databases of subsidized rental properties
- develop early warning systems
- provide access for grantees to a subscription-based web mapping tool
- conduct studies of local housing markets
- create a data infrastructure for a national preservation database
- create a searchable database of state and local preservation policies
- develop a business plan for large-scale preservation of affordable rental housing in certain regions of the United States
- conduct case studies of preservation projects
- compare life-cycle costs of new construction versus preservation
- create an energy score card for multifamily rental properties.

The goals of this strategy were to improve the tools that developers and funders could use to track affordable rental housing, identify the nature of the local challenges to affordable housing (e.g., building types, ownership structure, building size, housing market pressures), and better prevent rather than react to affordable housing crises. These were interim goals to help practitioners and advocates make their case more effectively to policymakers, in service of the ultimate desired outcomes of increased volume of preservation through a lasting policy framework to support it.

Strategy to Improve State Context for Nonprofit Owners

In 2007, the foundation expanded WOO to include the addition of the State and Local Housing Preservation Leaders initiative. This strategy is the subject of a case study in Chapter Four. After issuing an RFP in 2008, the foundation awarded \$35 million in 2009 to 12 state and local governments. Iowa was one of the 12, but, because of a statewide flood emergency, it chose to drop out of the preservation initiative and returned funds to MacArthur.

An interviewee aptly termed this strategy a “fund the funders” approach, since state housing finance agencies (who were the primary grantees of the State and Local Housing Preservation Leaders initiative) allocate to affordable housing developers the most significant public source of preservation funding, namely LIHTCs. The State and Local Housing Preservation

Leaders initiative illustrates how MacArthur sought to “cement the local tables” for preservation through investments in state and local preservation infrastructure.

Specifically, the MacArthur Foundation awarded loans and grants to state and local groups to develop (1) the data infrastructure to track the housing inventory and come to consensus on preservation priorities, (2) a system whereby knowledge and innovation from preservation transactions can bubble up to a working group of housing practitioners, and (3) access to more and larger sources of funds to execute preservation transactions. “Cementing the local tables,” in other words, was putting preservation at the center of a state and local agenda. As a MacArthur staff person put it, “Are you making people say, ‘What about preservation? How do we need to work together in a different way on it?’”

The foundation’s goals through this strategy were to put in place two of its three-legged national policy framework: secure new state and local funds for preservation and secure state-level incentives or regulations to promote preservation. It was also to build more advocacy for preservation at the federal level, given state and city agencies’ growing awareness of federal opportunities and challenges through their increased focus on preservation. A final goal was to generate the financial flexibility to foster innovative preservation practices, thus providing lessons and models that other locales could use. With that particular aim in mind, the MacArthur Foundation incorporated regular grantee convenings into its plans for the initiative.

Strategy to Promote Tenants’ Rights

The MacArthur Foundation gave a total of 13 grants to five organizations that worked to promote tenants’ rights. These organizations were the Chicago Housing Initiative, the National Preservation Project, the National Housing Law Project, Sargent Shriver National Center on Poverty Law, and Tenants United for Housing. This collection of grants was for technical assistance for tenants of subsidized housing about their legal rights, training for legal services attorneys, monitoring and occasional involvement in housing-related court cases, analysis of federal regulatory policy and pending legislation, and identification and preservation of at-risk properties, including through litigation. Litigation or the threat of litigation was usually in service of the fair treatment of residents, whether or not they had a right to remain on the property as it underwent a conversion event. For example, HUD has rules for how and when tenants must be notified about a contract being terminated and what tenants’ rights are in this event, including whether or which forms of subsidy a tenant may receive. Organizations such as the National Housing Law Project and the Sargent Shriver National Center on Poverty Law provide information on tenants’ rights in these scenarios and also are a direct resource (or provide access to resources such as legal representation) to tenants to ensure that owners follow all rules throughout a contract expiration, termination, or renewal process.

Grant-making for tenants’ rights was by far the smallest of the seven strategies within Window of Opportunity. The goals for this strategy were to provide resources for tenant education and outreach, legal training to local leaders such as public interest lawyers, participation in networks such as the National Alliance of HUD Tenants, and protection of particular properties at risk of converting from subsidized to unsubsidized rental housing.

Strategy to Improve Funding, Regulatory, and Legislative Context for Preservation

This strategy is the collection of the previous six strategies, plus the 20 general operating grants that MacArthur awarded to six nonprofit national advocacy organizations: the National Housing Trust, the National Low Income Housing Coalition, the National Housing Law Project,

the Low Income Housing Institute, the Housing Preservation Project, and the Housing Assistance Council. In other words, the MacArthur Foundation sought via each of the strategies described above to put in place a policy framework (funding, regulations, and incentives) to support the preservation of 1 million affordable rental homes by 2020.

As an example of advocacy organizations' work, the foundation provided general operating grants to the National Housing Trust and to the National Housing Law Project, which provided complementary technical assistance and policy support at the state and local levels to promote preservation. For example, the National Housing Trust could provide programmatic support to localities in the design and structure of state qualified allocation plans (QAPs), while the National Housing Law Project could be a national resource to advise or help local advocates and jurisdictions defend legal and regulatory tools, such as notice laws or purchase-opportunity laws. The general operations grants also allowed the organizations to fund staff who could participate in and give substantial time to such networks as the National Preservation Working Group.

Conclusion

The Window of Opportunity initiative helped a wide variety of actors preserve privately owned affordable rental housing through a top-down and bottom-up approach of funding national advocacy organizations, down to state agencies, down to regional nonprofit developers/owners of affordable rental housing. The design of the initiative went through three iterations and ultimately expanded from a \$45 million, three- to five-year initiative to a 20-year initiative that included \$187 million in loans and grants. WOO ultimately executed seven strategies in service of two goals. First, the foundation directly funded nonprofit owners and special-purpose vehicles with the goal to preserve 300,000 rental units by 2020. Second, the initiative aimed to secure a policy framework that would enable the preservation of 1 million affordable rental homes by 2020, and thereby eliminate the Joint Center for Housing Study's projected loss of affordable rental housing in the United States.

Case Studies of Window of Opportunity

In this chapter, we present case studies on four out of the seven strategies of the WOO initiative. One purpose of the case studies is to make more concrete for the reader what those strategies involved. We selected activities that we or the MacArthur Foundation believed were successful and had the potential to be sustained post-WOO. But the chief aim of the case studies is to identify the structural features that enabled any successes that might inform other jurisdictions and groups interested in replicating similar initiatives or activities and to share lessons learned.

The first case study examines the Housing Preservation Equity Trust, which is the only real estate investment trust (REIT) among the special-purpose vehicles that MacArthur Foundation funded through WOO. The Housing Preservation Equity Trust is a financial structure intended to solve a critical barrier to preservation, namely the ability to acquire property quickly. Seed funding special-purpose vehicles was the strategy into which the MacArthur Foundation invested the most funds, as shown in Table 3.1.

The second case study examines Stewards of Affordable Housing for the Future, which is a peer network of some of the largest nonprofit preservation owners in the United States. As a WOO grantee, SAHF represents a core part of the WOO initiative, which was to enable large nonprofit owners to have policy impact through collective action fostered by peer networks.

The third case study examines the Cook County Preservation Compact, which was one of two “key cities” local partnerships (the second being New York City) to build a local infrastructure for preservation. It was a staging ground to foster sustained interagency collaboration to identify local needs for preservation, develop policies and instruments to address those needs, and then implement and refine them.

The fourth case study is of the State and Local Housing Preservation Leaders initiative, which WOO launched to improve state and local context for large nonprofit owners by funding public-sector partnerships to develop state preservation strategies and infrastructure.

Once we selected the case studies, we interviewed between three to nine individuals specifically for the case study (and drew on interviews we describe in Chapter Five), using an interview protocol that we developed for that particular case study. We also reviewed documentation from the MacArthur Foundation about grantees and borrowers within that activity. We describe who we interviewed and our research methods for the case studies in Appendix A.

These cases demonstrate varied approaches to preserving at-risk affordable rental housing. Common themes emerged that are relevant for those who seek to preserve affordable housing through collaboration with either peers that have similar roles, as is the case with SAHF, or organizations within a specified geographic area, as is the case for the Cook County Preserva-

tion Compact (TPC) and the state and local initiatives studied. These themes are discussed in detail in each section, and summarized at the end of this chapter.

Seeding Innovative Preservation Finance Vehicles: Housing Partnership Equity Trust

Introduction

In assessing the preservation landscape in the run-up to WOO, the MacArthur Foundation recognized that new finance vehicles would be needed if preservation was to achieve meaningful scale. To that end, WOO's largest class of investments was targeted at seeding innovative preservation finance vehicles that were designed to overcome specific financing challenges (Table 3.1). Twenty-one organizations received support for innovative preservation finance vehicles. The Housing Partnership Equity Trust (HPET) was one of those organizations.

Of the 21 organizations that received MacArthur funds, HPET is the only one that uses a REIT structure. This structure was viewed as a way to offset a major disadvantage that nonprofit (and mission-oriented) developers face when competing with for-profit developers to purchase “at-risk” affordable rental housing—i.e., housing with subsidies that are about to expire, or housing that is unsubsidized and has rent levels that are currently affordable but that are soon likely to rise in a rapidly appreciating market (also known as “naturally affordable”). Because the traditional model of affordable housing finance involves many layers, it can often take a nonprofit or mission-oriented developer much longer than a for-profit developer to close a deal. This renders their offers less attractive to sellers. In theory, the REIT structure solves the problem of timing, because REITs have cash available, having raised capital from investors, including their members, to make offers without the associated complexity of financing typical of affordable housing deals. This speeds execution and gives the nonprofit participants in the deal a better chance of acquiring property.

This case study will describe HPET and its performance to date. We will summarize HPET's key accomplishments, which we will use to assess whether its features have in fact successfully mitigated the complexity problem in financing that nonprofits face. We then consider how the individuals involved in HPET view its future and comment on whether the entity is replicable.

Overview of the Housing Partnership Equity Trust

In 2013, the MacArthur Foundation, the Ford Foundation, the Housing Partnership Network, and 12 nonprofits agreed to come together to become founding common shareholders in HPET. They named Tom Bledsoe as HPET's first CEO. The partners decided that their first investment fund should be capitalized at \$100 million. They committed \$25 million in equity for the venture, with MacArthur providing \$10 million through WOO. Bledsoe led a successful effort to raise an additional \$75 million. Prudential agreed to provide \$10 million in preferred equity, and Citibank agreed to provide \$65 million in debt financing.

Having raised the \$100 million, HPET management sought to deploy it by purchasing properties that meet the needs of low- to moderate-income households. To maintain its tax-exempt status with the U.S. Internal Revenue Service, HPET must obtain properties that are affordable and have covenants in place that ensure that they remain affordable. As a practical matter, this has primarily (although not exclusively) meant purchasing properties in the Mid-

west, and in “collar suburbs.” While at least one of the properties is subsidized, the rest are unsubsidized rental properties. HPET members identify properties for potential acquisition and then, if the board approves, HPET makes offers on these properties. If an offer is accepted, HPET members are co-investors in the properties. For all-cash deals, the member that identifies a deal takes a 5 percent equity stake, and HPET provides the rest. For deals involving a mortgage, the member who sources a deal takes a 15 percent equity stake, and HPET provides the rest. HPET’s members are responsible for both asset management and property management. The board does not identify deals; rather, it performs final due diligence and either approves or passes on potential deals.

Properties obtained by HPET are evaluated with the same metrics used in market-rate deals: discounted cash flow, return on investment, and return on equity. The test of whether an HPET deal makes sense is whether a property can earn investors a reasonable return while keeping rents affordable to a household that would qualify for housing assistance—i.e., households whose income is 60 percent of area median income or less.

Key Accomplishments of the Housing Partnership Equity Trust

Though it is a relatively new venture, HPET has already had some important accomplishments.

The Housing Partnership Equity Trust Has Successfully Obtained Capital for Investment Funds

It was not a foregone conclusion that HPET would be able to raise the \$100 million it sought for its initial fund. MacArthur and its common shareholder partners pooled together only \$25 million; they needed to convince private-sector market participants to invest significant capital toward an untested business model. Bledsoe reported that MacArthur’s \$10 million participation was crucial to raising the additional \$90 million in funds. MacArthur’s investment gave confidence to the nonprofits that became the common equity participants, and to Citibank as a line-of-credit lender.

Prudential’s involvement was also key. HPET’s goal was to raise initial capital of \$100 million, and therefore it needed to fill a \$10 million gap after the common equity commitments and Citibank’s debt commitment had been secured. HPET approached Prudential’s social investment division about the possibility of obtaining \$10 million in mezzanine debt.¹ Prudential was not interested in providing a loan: According to our interview with this investor, the company was worried that if the new entity took on too much leverage, it would be at too great a risk of not being able to meet debt payments. Prudential was, however, intrigued by the possibility of obtaining preferred equity as part of its impact investment strategy.² While this limited Prudential’s potential upside, it also enabled Prudential to earn a seat on the HPET board, which allowed it to monitor the REIT’s activities. Prudential’s willingness to invest in HPET may serve as a model for other “impact investors” looking for vehicles in which to place money.

¹ Corporations are financed with layers of debt and equity. A fairly typical capital structure has (listed from most to least senior debt) senior debt, mezzanine debt, preferred equity, and common equity. When corporations fail to meet debt service payments, they are in default and can be forced to turn assets over to their creditors. Preferred equity shareholders are promised dividends that must be paid before common shareholders receive any payments. If the promised dividends do not materialize, however, the corporation is not in default. In an efficient market, expected returns are lower for senior positions than they are for junior positions.

² Because Prudential is not a bank, it is not subject to the provisions of the Community Reinvestment Act. It does “impact investing” because it thinks that, one way or another, it is beneficial for its business.

As an ongoing concern, HPET has been treated comparably to private investors in the capital markets. HPET was able to obtain a line of credit from Citibank at LIBOR³ plus 3.25 percent—which is not uncommon for private deals. It has promised its preferred shareholders a dividend of 4.5 percent, and it has met that promise.

In terms of return metrics and financial performance, it is too early to evaluate HPET, since the entity has been active since 2013.

The Housing Partnership Equity Trust Has Been Successful in Identifying and Acquiring Deals

HPET has been quite successful in identifying and completing deals—\$90 million of the initial capital has been used to purchase eight properties in four states. With one exception, HPET has purchased these properties with 6 percent or more in equity. Impressively, more than 90 percent of funds spent were used for the purchase price of the properties or capital expenses, similar to developer fees as a share of total costs for a LIHTC deal (Comptroller of the Currency, 2014). But because the LIHTC deals have higher physical construction costs than the HPET deals, the development fees associated with such deals are higher.

The Housing Partnership Equity Trust Has Been Able to Close Deals Quickly

Interviewees frequently noted the speed at which HPET was able to close deals. In the case of HPET's first transaction, which involved a property in Aurora, Illinois, an HPET member noted that HPET was able to purchase the property despite the fact that it did not offer the highest bid. The determining factor was the short closing timeline; the Aurora deal had a 45-day window to close. This structure caught the attention of mainstream market-watchers. The *Wall Street Journal* labeled the Aurora acquisition as its real estate "Deal of the Week." The two HPET members we interviewed were very enthusiastic about the efficiency of the REIT model.

Features of the Housing Partnership Equity Trust Credited with Enabling Its Success

We identified two structural features of HPET that we believe are intrinsic to its potential to alter the dynamics of acquisition of affordable rental housing for preservation.

The Housing Partnership Equity Trust Is a Real Estate Investment Trust

The first and most obvious is that HPET is a REIT, which is essentially an actively managed mutual fund that holds real property. REITs are corporations that may be traded either publicly or privately. According to U.S. tax code, REITs must fulfill certain obligations to receive favorable tax treatment. Most importantly, REITs must hold 75 percent of their assets as real estate, pay out 90 percent of their earnings in dividends, and turn over no more than 10 percent of their portfolio in a given year. If they meet these (and other, less significant) requirements, they do not pay corporate income taxes but instead are treated as pass-through entities, similar to mutual funds and partnerships.

REITs in the United States have been around since 1960, but they did not take off as a vehicle for owning real estate until after the savings and loan crisis of the late 1980s. In 1990, the market capitalization of all REITs was less than \$10 billion; by 2014, the total value for REITs had grown to more than \$900 billion (NAREIT, no date). The average REIT today has

³ The London Interbank Offered Rate, or the rate at which international banks often lend to each other.

a market capitalization of around \$5 billion. Like corporations, most REITs seek to maximize shareholder value.

In comparison with a typical REIT, at \$100 million, HPET is small. HPET deviates from the typical REIT paradigm in that it is committed to keeping rents affordable for a household that would qualify for housing assistance—i.e., a household whose income is below 60 percent of the area median income. That said, HPET must pay interest to the holders of its debt and a promised dividend to its preferred shareholder, and HPET must provide an equity return to its common shareholders. The key distinction between HPET and the typical REIT is that entities investing in HPET are looking to profit—just not by as much as if they invested elsewhere.

The key purpose of leveraging the REIT structure was to deploy capital quickly to purchase at-risk affordable rental housing developments. Often, nonprofit developers seeking to acquire such properties were not competitive because the complex financing structure that they typically employ precludes quickly closing deals. A common financing structure for nonprofit affordable housing developers features both an equity piece (often drawing from LIHTCs) and a number of debt pieces. The various layers of debt may have different priorities in the so-called “capital stack” and may be funded by a variety of entities, including local, state, and sometimes federal government. The large number of financial layers creates complexity, which in turn slows the ability of potential nonprofit purchasers of low-cost housing to close on a deal. The HPET structure, by facilitating the creation of a large investment pool that could be deployed to implement a more straightforward financing structure, obviated the need for such complexity and allowed nonprofit owners to compete more effectively with for-profit developers for the successful acquisition of this at-risk housing.

The Housing Partnership Equity Trust’s Property Evaluation Approach More Closely Mimics the Cash-Flow Basis Used by Most For-Profit Developers Than That of LIHTC Properties

The HPET approach to acquiring a property at risk of becoming unaffordable to households with incomes at 60 percent or less of area median income differs from the approach used to assess a typical affordable housing deal, in which developers face capped fee income and, in the case of LIHTC deals, have a goal of maximizing the eligible basis for tax credits while balancing sources and uses of funds.

To illustrate the difference, we consider a hypothetical property in the Chicago area that is either to be purchased by HPET or built through the LIHTC program. Given that the relevant area median income for a family of three is \$65,200, this implies that an affordable rent for a low-income family would be \$11,736 per year, or \$978 per month ($\$65,200 \times 60$ percent $\times 30$ percent of income).

Like any conventional investor in real estate, HPET assesses value by considering cash flows from the property. If net income is 65 percent of gross income (expenses are typically about 35 percent of gross income), a landlord can earn a net of \$636 per month, or \$7,628 per year, on a unit that a family of three at 60 percent of area median income can afford. If, hypothetically, HPET needs a rate of return of at least 6 percent on its investment, HPET will be willing to spend as much as \$127,140 per unit for this property. In other words, HPET would be willing to purchase the property at a price up to \$127,140 per unit.

In contrast, the benefits from a LIHTC deal come largely from the credits themselves, as well as from financing instead of from cash flows. To investors in tax credit deals, value comes from four places: the tax credits themselves, favorable financing, rents (which are capped), and reversion (i.e., the value of a property when it is sold).

Consider the value of a hypothetical newly constructed multifamily rental property financed solely with equity from the sale of LIHTC tax credits, where the total cost for construction is covered by net income from rents of \$636 per month. The value of the LIHTC is 9 percent of “eligible basis” per year for ten years. “Eligible basis” is the eligible development costs that can be included in the calculation on which tax credit awards are based. Once awarded to a developer, these tax credits can be sold to investors, who, in exchange for an upfront payment to the seller, apply the credits over ten years to reducing their tax bills. If financial markets are working properly, the amount investors pay should be equal to the present value of the tax credits. Desai, Dharmapala, and Singhal (2010) estimate the present value of the credits to be 85 cents per dollar distributed over the ten years.

The price a developer in a LIHTC deal is willing to pay—i.e., the equity a developer is willing to place into a LIHTC property—is therefore

hard construction cost for physical construction + soft construction cost such as for permits, architecture, and engineering fees + land cost – (eligible basis x present value of the LIHTC).

For simplicity, assume that the entire property will meet eligibility criteria for affordability. Then the developer’s required equity will be

$$\text{hard construction cost} + \text{soft construction cost} + \text{land cost} - (\text{hard construction cost} \times 0.9 \text{ cents} \times 0.85 \text{ present value of each dollar distributed over nine years}).$$

Let us also assume that soft construction costs are 15 percent of hard construction costs and that the land value is 30 percent of total construction costs. Then we know the developer’s equity required for an unleveraged deal is

$$\text{hard construction costs} \times ((1.15 \times 1.3) - (0.9 \times 0.85)) = \text{hard construction costs} \times 0.73.$$

With the hypothetical Chicago-area market-rate housing that HPET was considering purchasing, we assumed a rate of return on equity of 6 percent. But LIHTC deals usually have 30-year restrictions on rents, which, among others things, reduces the incentive to maintain properties. If LIHTC properties depreciate 2 percent per year more than market-based properties, investors will require current returns 2 percent higher than market-based properties. Thus, the investor in the LIHTC requires an 8 percent rather than a 6 percent return. Now we can compute the costs that a developer is willing to pay in exchange for \$7,628 in rent per year:

- $\$7,628/0.08$ capitalization rate = (hard construction costs) $\times 0.73 = \$130,616$
- total costs = \$195,271 (\$130,616 hard construction + \$19,592 soft construction cost + \$45,062 land).

Thus, the cost of the LIHTC deal is considerably greater than that of the HPET deal (\$195,271 versus \$127,140 per unit), in part because the developer is motivated by the desire to generate tax credits. Of course, the difference in outcomes is a function of the assumptions in the deal; it is also the case that there are markets (San Francisco and Manhattan come to mind) where HPET’s model does not work, because the least expensive market-rate housing is still unaffordable to low-income households.

The bottom line is that a LIHTC credit developer is willing to pay more for a property to generate the same rent as an entity such as HPET that operates in the private market. This is only natural, as LIHTC is a subsidy and HPET receives no subsidy. But it also means that HPET has greater incentives to hold down costs than a LIHTC developer, for whom every dollar spent on construction produces more subsidy. This will improve HPET's competitiveness in open auctions that feature private, for-profit developers.

The Future of the Housing Partnership Equity Trust

HPET is currently in the middle of a campaign to double its capital from \$100 million to \$200 million. Its ability to raise a second tranche of capital will be telling because HPET is attempting to raise common equity outside of its immediate network.

The ultimate indicator of HPET's success will be whether it will be able to take the company public, something nearly all REITs aspire to achieve eventually. This would mean that it would have access to capital from ordinary shareholders, which would make it more liquid, in principle driving down its capital costs. Generally, REITs do not go public until they have invested at least \$1 billion in projects,⁴ so HPET has much to achieve before going public is a possibility.

If HPET is able to become a publicly traded company, other similar entities should be able to replicate its performance. The key question is whether there is investor appetite for a vehicle that makes less than the maximum possible return while providing housing that people with low to moderate incomes can afford. One attraction of a REIT like HPET to investors is that it is unlikely that housing affordable to those in the bottom quartile of the income distribution will go vacant for very long. This means that, while HPET and its potential imitators may not earn the maximum possible return on equity, their returns should be less volatile than those of alternative real estate investments.

Lessons Learned

This case study has highlighted the structural features of HPET that have helped it recalibrate the balance of competitive power between nonprofit and for-profit developers interested in rental properties at risk of leaving the affordable stock. During its brief existence, HPET has competed successfully with for-profit developers by being able to quickly acquire at-risk affordable housing properties. As a Freddie Mac official told us,

We find this naturally occurring affordable housing construct as something that we would love to do more for and figure out a financing structure that will work better for and hope to see that get off the ground. It's just that it's in its infancy but we would love to see that grow.

Among the experts with whom we spoke about preservation, HPET is the most frequently mentioned example of a mechanism to maintain the affordability of unregulated rental housing. As one MacArthur Foundation staff person noted, "How do you help unsubsidized units stay in the inventory?" The REIT model of HPET might help. Those considering the utility of this approach should consider the following details:

⁴ Since there are large transactions costs associated with becoming a publicly traded company, the underlying value of a company's assets typically needs to be in excess of \$1 billion to justify those costs.

- HPET’s ability to acquire eight properties within three years of being established suggests that the REIT structure is an effective vehicle for overcoming the inherent competitive disadvantage that the typical affordable rental housing financing structure faces.
- The HPET experience suggests that there are private investors willing to accept slightly lower returns to advance social policy goals and objectives. The challenge is identifying these investors and being cognizant of the particular deal structures that have the greatest appeal for them.
- Close attention should be paid to the near-term performance of the properties acquired by HPET. A demonstration of strong performance could catalyze broader and deeper investment in REIT entities focused on preservation concerns.

Networking Large Nonprofit Preservation Owners: Stewards of Affordable Housing for the Future

Introduction

In this case study, we focus on Stewards of Affordable Housing for the Future, one of three peer networks of nonprofit owners in which MacArthur invested through WOO. Through investments in networks such as this, WOO augmented its ground-up approach to preservation by encouraging the horizontal spread of ideas and practices through networks. Such networks are intended to help practitioners and policymakers navigate their way through notoriously time-consuming and complex preservation transactions, while also increasing standardization of practices among preservation owners, which could ultimately help owners access larger amounts of funding and more diverse types of private capital.

SAHF is a structure that enables information to flow more easily across mission-oriented preservation owners. As a collection of many of the largest of these entities, SAHF was “a reflection of the growth and capacity”⁵ of a critical mass of nonprofit owners of affordable housing who, by the early 2000s, had grown beyond single local markets. SAHF provides a view of the concerns and innovations of WOO’s primary beneficiaries: large U.S. nonprofit owners that work on preservation transactions in several housing markets. SAHF also encapsulates WOO’s bottom-up and top-down approach: As a peer network, SAHF is a collective of owners who work on the ground to execute preservation transactions but who work across many housing markets and can thus convert broader trends that SAHF aggregates into proposed policy changes.

In this case study, we describe SAHF and its initiatives, summarize its key accomplishments with a focus on its policy work, and identify the features that SAHF interviewees or we identified that enabled those accomplishments.

Overview of Stewards of Affordable Housing for the Future

Co-founded by William (Bill) Kelly and several others who would later become SAHF members, SAHF sought and was granted 501(c)(3) status in 2003. The organization’s first funding was a \$100,000 grant from the MacArthur Foundation, which was used to hire a policy

⁵ Unless otherwise noted, quotes are from two phone interviews by the author with Bill Kelly, former president of Stewards of Affordable Housing for the Future, on October 3, 2014, and January 27, 2015. The January 27, 2015, interview also included Eileen Fitzgerald, current president of Stewards of Affordable Housing for the Future.

director (separate from Kelly, who served as SAHF president and donated his time). In 2007 and 2011, SAHF received two additional grants from the MacArthur Foundation through the WOO initiative, which would serve as the primary but not sole philanthropic source of funds for SAHF. In 2014, Kelly stepped down from his responsibilities as SAHF's president, and the SAHF Board appointed Eileen Fitzgerald in his place. SAHF has a total of nine staff.

SAHF is an invitation-only member group of mission-oriented national and multistate owners of affordable rental housing. As Kelly explained, SAHF was created out of a need for a network designed exclusively to serve nonprofit owners that typically had become large enough to have an executive office as well as departments for functions such as information technology, human resources, asset management, compliance, and housing finance. These organizations “worked with more than one mayor, more than one HUD office, [and] generally in more than one state.” The organizational scale of the owner members gives them the resources to frame and address policy questions and to execute longer-range planning, while their geographical diversity gives them experiences that span several housing markets and regional economies.

Importantly, the size of the SAHF network is capped at a number that can “fit around a single conference table.” SAHF started with eight owner organization members and grew in 2011 to 11, which remains its current size. The members have informally set a cap at 15. The size of SAHF is relevant to ensure that members' CEOs can talk confidentially with other multistate nonprofit owner CEOs. SAHF members meet once per month by conference call and in person once per quarter. SAHF staff play the role of conveners by setting and organizing member meetings, and, during meetings, by identifying patterns and innovations among and across members, subsequently translating discussion items into action steps.

SAHF's primary mission is to influence preservation policy. As such, SAHF's two-part focus is to (1) preserve “the roughly 1.2 million apartments that are federally subsidized and that are privately owned—not public housing” and (2) increase the supply of affordable rental housing. The secondary mission at SAHF is to “do our work better” through peer-group sharing. Members have identified topics around which organizational sharing is most beneficial. Over time, SAHF has led members to collaborate around selected topics, such as resident outcomes and energy conservation. SAHF members explicitly decided not to start business lines such as an insurance or purchasing collaborative, since members did not perceive a shortage of available products in the market. To generate income, SAHF acquired the National Affordable Housing Trust, a financial intermediary and advisory firm, to provide its members with expertise on tax credits and syndication services. Table 4.1 places this acquisition among other major SAHF activities, which are listed in chronological order.

Key Accomplishments of SAHF

SAHF Is Best Known by Preservationists for Its Influence in Achieving Federal Administrative Reform

In the interviews described in Appendix A, developers, affordable housing advocates, and state and federal government policymakers frequently cited SAHF's influence on the reform of federal administrative policies. As one SAHF member noted, SAHF's “most impressive work was work with Shaun Donovan's HUD administration. . . . It keeps everybody [members] coming back.” Another member told us that

SAHF is by far the biggest place where we go for policy. And the value at the SAHF level of really working mostly with the federal level folks, the HUD folks and helping them, help-

Table 4.1
Stewards of Affordable Housing for the Future Initiatives

| Major SAHF Initiative | Year Started |
|---|--------------|
| Administrative reform advocacy: Members make visits, write letters, and provide comments to elected and appointed officials regarding desired administrative reforms. | 2003 |
| Deal roundtables: Member CEOs or senior leadership discuss creative/atypical deals that they have completed. | 2006 |
| Peer groups: Members exchange best practices according to the following staff categories: CEOs, asset management, resident services, technology, financial operations, energy staff, fundraising staff, public relations staff, corporate counsel, and development staff. | 2007 |
| Energy retrofit finance: Members developed several iterations of refinancing strategies, including piloting energy performance contracts; creating a program called “EZ Retrofit,” which is a tool designed to help property owners easily and cheaply identify which energy and water conservation measures are likely to be cost-effective at their sites; and designating lead designers in partnership with other organizations for the “pay for success” federal legislation. | 2011 |
| Outcomes initiative: To better serve residents, members adopted the objective to shift from measuring only inputs to measuring resident outcomes. The initiative adopted the objective to standardize data collection about resident services and resident outcomes with an emphasis on identifying potential innovative funding sources for resident services. | 2012 |
| Acquisition of National Affordable Housing Trust: This financial intermediary and advisory firm, formed in the 1980s by some future SAHF members, is now a controlled nonprofit subsidiary of SAHF providing tax credit expertise and revenue support for SAHF. | 2013 |
| Big Reach: Members commit to reduce energy and water consumption in their portfolio by 20 percent by 2020. This initiative served as a model for the expansion of the U.S. Department of Energy’s Better Buildings Challenge from single to multifamily housing in 2013. Since costs can go up and down due to the energy and water markets and regulation, the consumption reduction goal reduces costs. | 2013 |

ing HUD, write regulations that are conducive to good preservation work has been one of the strengths of SAHF.

A nonmember explained that SAHF has a “unique ability as a union of the very largest national groups related to HUD to articulate policy at a deep, detailed regulatory level.” This theme was reiterated by a number of interviewees, who reported that SAHF’s core strength has been its highly detailed “inside policy work . . . [s]tuff that nobody does.”

Interviewees linked SAHF to HUD more than to any other federal department. One interviewee told us: “Frankly, the field is having a much more effective interaction with HUD because [SAHF] is able to articulate the need for changes in the way HUD does things . . . very practical examples of ‘if you just did this one thing, this is what [HUD] could be doing more effectively across 10,000 units of housing.’” Similarly, another interviewee explained that

one of the fundamental comments I get from people at HUD is that they rely on SAHF to come to [HUD] with pragmatic, nonpolitical, fully reasoned and sensible suggestions about things [HUD] can actually do that will make a difference. These days in Washington, that is very valuable.

The timing of SAHF’s founding was fortuitous because SAHF presented requested reforms to staff at HUD that were “very, very focused [in the Donovan administration] . . . on preservation activities and changing a variety of our administrative policies to try to facilitate preservation.”

As Kelly explained, SAHF's key contribution to policy change was to recognize that much could be achieved administratively rather than legislatively. In the absence of active federal legislation in housing during the WOO initiative, SAHF sought to prioritize preservation by identifying housing transactional details that could be meaningfully improved through administrative reform. Although SAHF devoted substantial time and effort to advocate for the passage of a housing preservation bill, many of the approximately 20 items on SAHF's administrative reform "wish list" (several of which were included in the draft bill) were enacted administratively rather than legislatively.

SAHF provided a convenient way for federal policymakers to hear a synthesis of policy problems and proposed solutions from a prescreened group of nonprofit owners who had credibility due to their mission orientation and direct experience with affordable rental preservation transactions across several housing markets. Importantly, SAHF did the advance work of sifting out nonfederal issues raised by the network of owners and then delivering to HUD only information on which HUD could act. SAHF resisted asking for one-time fixes for individual transactions (which had low or no policy impact) in favor of presenting a set of proposed fixes for systems that influenced many transactions and thus had higher policy relevance. These lists of proposed fixes were developed through the aggregated transaction experiences of the mission-oriented owners within SAHF, who worked with many HUD regional offices. As a result, the list of problems and proposed solutions were perceived as systematic, objective, and worthy of action.

SAHF staff developed a "wish list" to present to policymakers by facilitating conversations at SAHF board meetings and retreats and by holding peer group meetings and calls among developers, asset managers, and policy specialists to identify the best examples to illustrate transactional problems. The selection of transactional problems required technical knowledge by SAHF staff, as discussed in more detail below. Staff's ability to facilitate SAHF member conversations required understanding the history of the "old [housing subsidy] programs," as well as an ability to analyze HUD's regulatory and administrative powers in order to propose appropriate, actionable solutions. After compiling data from SAHF members, SAHF staff culled transactional details in order to present "facts on the ground" to HUD in a coherent manner coupled with proposed solutions.

In the view of SAHF staff and former HUD officials we interviewed, HUD top leadership listened to SAHF suggestions because (1) Obama administration appointees within HUD already believed preservation was a problem and (2) SAHF delivered "right-sized" suggested fixes to HUD. SAHF gave owner members an ability to communicate concerns to the top leadership of HUD. HUD also asked SAHF for advice and assistance in brainstorming how to fix problems. More than one SAHF member commented that SAHF's credibility with and influence on HUD were "impressive."

SAHF's Second-Most Frequently Cited Accomplishment Is Its Initiatives to Improve the Operation and Financing of Affordable Rental Housing

Several interviewees and the former and current presidents of SAHF ranked one or more of the following initiatives among SAHF's greatest accomplishments:

- **Energy and water conservation** across members' housing portfolios, which reduces utility costs (thus improving prospects for the preservation of a property) and greenhouse gas emissions.

- **Resident services** coordinated through the housing developments owned by SAHF members. SAHF members believe that housing provides an ideal way first to identify and then to respond to a comprehensive set of families' needs (health care, education, financial well-being) through integrated supports. SAHF members have therefore invested in developing the data infrastructure needed to identify needs and document service provision, which is a necessary enabler of future "pay for success" or "pay for performance" funding to support such activities.
- Exploration of **new sources of equity, debt, and grant funding for owners**. SAHF's subsidiary, the National Affordable Housing Trust, raises equity based on tax credits for SAHF members and works with SAHF to develop products based on members' needs. The National Affordable Housing Trust has sponsored two tax credit funds with MacArthur Foundation guarantees and will shortly launch a fund that rewards developers for achieving specific resident outcomes. In addition, CEOs and chief financial officers of some SAHF member organizations have co-led initiatives to develop new funding sources, such as HPET, through the Housing Partnership Network (described in the first case study in this chapter) and the Data Warehouse through Strength Matters. SAHF's participation in Strength Matters gave other nonprofits a link to the property management and portfolio data of some of the largest, most sophisticated owners. SAHF members are also working on a concept for another fund to purchase naturally affordable properties.

In almost all cases, interviewees cited the ability to pool SAHF members' data, staff resources, and transactional experiences as the primary reason for the success of these initiatives. Put another way, the combined resources of SAHF members around a given topic exceeded the time, will, and ability of any one member to investigate a problem, iteratively test potential solutions, and then advocate through policy reform for its broader adoption. SAHF continues its policy work and sharing information among peers but focuses now on measuring resident outcomes, the sustainability of service-enriched housing, and energy and water conservation.

Features of SAHF Credited with Enabling Its Successes

The launch of SAHF was the first time the very largest nonprofit mission-oriented enterprises formally collaborated as a group. The collaboration identified areas where SAHF had a comparative advantage—such as federal administrative reforms or energy consumption practices—and in which a collective could perform better than any one member. Through interviews and reviews of documents, we identified the following eight characteristics of SAHF that enabled it to achieve federal policy reforms and launch crosscutting initiatives.

SAHF Consists of a "Small Table" of Members Who Have Aligned Incentives to Develop a Unified "Ask" of Federal Administrators and to Launch Joint Initiatives

Compared with other trade associations, SAHF intentionally has a very small number of members. Thanks in large part to the "small table" effect that arises from an organization with fewer than 15 members, trust and friendships formed among the CEO members. Critically, there has been continuity among CEOs of these organizations, which afforded the time needed for trust to form. Several interviewees noted that "the most important element [of SAHF] is the active participation of the CEOs in a relatively small group around the table." As one member told

us, “to be perfectly frank, there are things I will say in a room with ten close peers that I’m not going to say in a room with 100 close peers.”

In addition to its small size, the members of SAHF are sufficiently homogenous—all multimarket, all nonprofit, all owners, all mission-oriented, primarily CEOs—to allow for agreement around SAHF’s core mission. This mission has evolved into using housing as a platform for resident success, which is also termed “housing plus.”⁶ Unlike networks with large memberships, SAHF has not had to bridge disparate members’ concerns and interests.

SAHF members share an orientation toward the use of metrics, business analytics, and data to run more effective businesses. This orientation propels an interest in compiling data from member organizations to identify patterns and trends and, ultimately, to build policy initiatives, such as Big Reach (see Table 4.1 for details) or improving resident outcomes.

Trust among SAHF members enabled sharing proprietary tools and cultivating a culture of inquiry. SAHF sees itself as a laboratory for innovation. Members are encouraged to share with each other their internally developed initiatives such as asset management software or tools to assess the services provided to residents. The self-selected, small size of the group generally increases members’ willingness to share these proprietary tools, boosts members’ appreciation for the quality and expertise of tools shared through the membership, and increases the relevance of the tools, which must be sufficiently flexible to work across a number of states or jurisdictions with their diverse policy and funding environments.

There Was Sufficient Continuity Among SAHF Members to Execute Long-Term Plans

SAHF members have the institutional continuity necessary to carry out the long-term work of developing and testing proposed policies and achieving administrative reforms and policy change. SAHF staff and CEO members have a low rate of turnover, which lends stability to the development and execution of initiatives. SAHF’s policy work has extended over several years and involved two HUD administrations and several congresses. The institutional continuity of members and of the network leadership has allowed SAHF to sustain the research and development required to launch initiatives such as Big Reach and to maintain continuity in its requests and “message.” From a policy reform perspective, this continuity is all the more important in light of the relatively rapid turnover of higher-level public-sector staff in both federal and state housing agencies. The continuity also allowed trust to form among SAHF members in spite of competition for properties and resources within given housing markets.

SAHF Has Sufficient Continuity of Funding to Provide Essential Administrative Functions for Its Members to Take Collective Action

SAHF staff convene its members and provide a structure through which a group of owners can convene, follow an agenda, and develop action steps for moving forward. As Kelly noted, the start-up grant and, more importantly, the continuity of general operations grants from the MacArthur Foundation over time, was the grease that could make the gears turn. Without those funds, according to Kelly,

we would have stumbled along for a while and we might exist today, but I don’t think we would have had anything like the impact we had. In the absence of adequate support, we

⁶ As of February 2015, SAHF’s mission statement is “to lead policy innovation and advance excellence in the delivery of affordable rental homes that expand opportunity and promote dignity for residents.”

wouldn't have been able to have high-quality meetings, effect the administrative reform we did, and so on. We might well have lost member interest as well as my own.

SAHF Leaders Possessed Technical Skills and Credibility with Housing Administrators

SAHF leaders understand specific HUD legal authorities as well as housing policy. This dual knowledge helped SAHF avoid wasting time or credibility with HUD, since SAHF facilitators could identify in advance mismatched issues or unworkable proposals. Kelly's reputation helped to secure meetings with HUD staff. Several interviewees noted that effective dissemination of ideas requires the complementary skill set of, on the one hand, being a good communicator and convener, and, on the other, having sufficient technical knowledge to move beyond simply repeating members' ideas to distinguishing among them, thereby helping the group identify those with the most promise.

SAHF Members Can Leverage Data from Each Other to Identify Patterns and Help Standardize Otherwise Idiosyncratic Preservation Transactions

This observation is also premised on the trust among members that enables their willingness to share proprietary tools. Peer networking, roundtable discussions, and major initiatives such as Big Reach all help identify common issues and elements that cut across the acquisition of properties and property management. As one member noted,

it [peer-to-peer relationships through SAHF] has been invaluable to me . . . to know the folks at the top of the food chain so to speak. . . . Every single transaction that is preservation that is worth its weight has problems at the field level [that] it is too complicated for [any one organization] to figure it out.

SAHF members have amassed and aggregated property-level data for thousands of properties located in many jurisdictions. These data are systematically analyzed to evaluate programs such as resident services and energy efficiency and to inform a broader agenda for preservation. For example, SAHF members' commitment to reduce energy and water consumption through the Big Reach initiative is premised on the ability to consolidate data on large portfolios of properties. SAHF hired an energy engineer to analyze members' data and to document results. One member commented that, through Big Reach, SAHF has "been able to amass data like no one else has been able to do." The aggregation of data to document impact and cost-effectiveness aids members in changing their own organizational practices, and sets the stage for the participation of other partners, industries, and stakeholders, through such means as pay-for-success programs. Another example, according to an SAHF member, is SAHF's operations and maintenance effort, which has produced a toolkit for use by practitioners:

I have seen firsthand that the SAHF members coming together has led to interesting ideas and steps forward for policy coordination and data collection that basically [sets] the agenda for some of the debate about preservation and how the industry goes forward.

SAHF Members Try to Avoid Over-Generalization of Conclusions That Would Dampen the Effectiveness of Advocated Practices Due to Local Variation

SAHF's general approach to improving practices is to set broad goals, such as a 20 percent reduction of energy and water usage by 2020, while leaving flexibility in approaches adopted

to reach that goal. Flexibility is essential, given variation among members and their portfolios, the practicalities of resource limitations, and cultural differences across owner organizations. The aim is not that every member will adopt best practices, but that members will analyze in detail the ingredients within a best practice to enable those who wish to adopt the practice to do so successfully.

Lessons Learned

This case study has highlighted the structural features of SAHF that have helped it be an effective means for nonprofit developers/owners to have policy impact. Other groups of preservation advocates or actors wishing to enhance their policy messages may wish to adopt these features to further their impact:

- Keep the group small enough to foster frank sharing among members of propriety business data. The small size of the group should help ensure that it focuses on a manageable list of targeted policies.
- Invest in a backbone organization that is staffed to convene the group, create the agendas, develop next steps, and corral members to execute them.
- Solicit a leader of that backbone organization who has sufficient technical expertise in the area as well as more general convening skills. Preferably this person would have a reputation from prior work with the policymakers the group seeks to influence. This person can also help cull member ideas to hone messages so that they are “right-sized” to the intended audience.
- To lead rather than only react to policy, invest in a research and development function of the network with staff explicitly tasked with time to pool data across member organizations, conduct analyses, and structure pilot programs for members to test. Once refined, these pilot programs can become proposals to policymakers.

Local Partnerships: The Preservation Compact

Introduction

Formed in 2007, The Preservation Compact (TPC) is a partnership spanning public, private, and nonprofit sectors established to coordinate and prioritize preservation efforts and to increase awareness of the importance of affordable rental housing preservation in Cook County. Its central features include interagency coordination among representatives of the city, county, state, and federal public entities that provide direct financial support to subsidized housing; the creation of new public and private sources of financing for the acquisition and rehabilitation of at-risk properties; and lowering unsubsidized rental property operating costs through energy conservation and reformed tax policies. TPC also includes a data clearinghouse to provide market research on changes in the state of the multifamily housing stock and real estate trends in the local area, as well as training and technical support to tenants of subsidized housing and their representatives.

TPC has served as a forum to bring together a wide range of Chicago area stakeholders whose work relates to the preservation of affordable rental housing. The TPC model has served as an impetus for development of similar initiatives in at least two other localities and jurisdic-

tions (Ohio and Maryland) that used interagency and public/private-sector collaboration to develop their own preservation strategies.

In this case study, we first provide an overview of TPC and its initiatives, then present a discussion of two of its key accomplishments (the Energy Savers Program and 1–4 Loan Program) followed by a discussion of the features of TPC credited for its success.

Overview of the Cook County Preservation Compact

In 2007, the MacArthur Foundation published an analysis undertaken by the Real Estate Center at DePaul University (Cannon, Cole, and Dombrow, 2007) projecting that the supply of affordable rentals would decrease by 2020 as demand increased over the same period. That analysis informed the work of the newly created Cook County Preservation Compact, which was formed to address the growing need for a strategy for preserving affordable rental housing in Cook County.

TPC is guided by four key principles:

1. Renters, including low- and moderate-income renters, are vital to a healthy local economy.
2. Rental buildings and the small business operators who own and maintain them contribute to the local economy, create jobs, and are critical to promoting neighborhood stability.
3. Owners of existing affordable rental buildings in struggling markets need access to credit.
4. Rebuilding struggling neighborhood markets is critical to preserving thousands of threatened affordable rental units.

TPC brought together a diverse group of government agencies, nonprofits, building owners, tenant advocates, and other housing stakeholders in a public/private-sector partnership. TPC's goal was to devise solutions and implement strategies that could assist developers, owners, tenants, government agencies, and nonprofit organizations concerned with preserving affordable rental housing and to develop a policy framework for Cook County. The initial coordinator of TPC was the Urban Land Institute, but in 2011, the coordinator role was transferred to CIC. Jack Markowski (president/CEO of CIC) serves as chair of the TPC Leadership Committee and Stacie Young is the director of TPC. TPC today is led by a leadership committee that includes leaders and staff from a variety of organizations such as financial institutions, HUD field staff, city housing officials, local housing authority staff, nonprofit organizations, advocacy organizations, universities, and foundations.

A majority of the nongovernment organizations⁷ that are members of TPC have received grants and PRIs from the MacArthur Foundation in support of activities related to TPC and, in some cases, for other complementary initiatives not included within the WOO initiative. MacArthur also has funded a number of PRIs to support the activities of TPC. For example, in 2006, the CIC received a \$2,000,000 PRI to establish a new fund dedicated to preserving and improving distressed rental properties in Chicago. CIC also received two PRIs from the

⁷ In isolated instances, the MacArthur Foundation has also awarded grants to government agencies, such as to the Cook County Assessor's Office in 2008 in support of affordable housing programs related to TPC.

MacArthur Foundation in support of the Energy Savers Loan fund.⁸ In 2009, MacArthur allocated a \$10,000,000 PRI to help fund The Preservation Compact Fund. (See Table 4.2 for a summary of accomplishments of TPC.) A more complete list of grantees and borrowers is provided in Chapter Three describing The Preservation Compact strategy.

When TPC was established in 2007, a pressing preservation threat was the potential for loss of affordable rental housing in Cook County through the conversion of subsidized and unsubsidized affordably priced, privately owned rental units to condominiums. (This is the strong markets risk discussed in Chapter Two.) Given a booming economy and improving markets in a number of neighborhoods, many government-subsidized property owners were opting out of their federal contracts for housing assistance due to their ability to charge increased rents.

At the same time, there was an under-recognized downside risk of deterioration of affordable housing due to lack of maintenance. (This is the building obsolescence dynamic discussed in Chapter Two.) Because of analysis conducted at the DePaul University Institute for Housing Studies (Shilling, 2010), CIC deemed deterioration the main threat to the supply of affordable rental housing. During the 2008 recession, the housing market collapsed, and neighborhoods struggled with foreclosed and abandoned housing. Although real estate values declined across Chicago about 35 to 38 percent on average during the recession, in communities with a strong market, real estate values declined only about 10 percent, while in communities with weaker markets, they declined as much as 80 to 85 percent. TPC's focus turned to developing new strategies to address deteriorating conditions and their impact on the supply of affordable rental housing.

Threats to the supply of affordable housing remained despite the large number of foreclosures during this time period that caused thousands of previously owner-occupied units to be transformed into rental housing. Even with this increase in rental units, according to interviews of TPC leaders, the supply could not keep pace with the demand, as many former homeowners also became renters.

Because the effects of the market crash were not distributed evenly across the city, there was a need for a range of preservation strategies, including a focus by TPC on community development and reinvestment initiatives targeted to those communities that suffered the most from foreclosure and abandonment.

Preservation Compact initiatives

TPC was originally structured into six keystone initiatives⁹ that migrated over time into five working groups formed to address different issues as they arose. The current working groups focus on

⁸ In 2007, CIC received a \$1,000,000 PRI in support of the new energy savers loan fund for TPC. In 2011, CIC received a \$5,000,000 PRI to support a ten-year PRI to increase the lending capacity of the Energy Savers Loan fund, in furtherance of TPC.

⁹ The six keystone initiatives were (1) Preservation Fund: Financing products to help buyers acquire and improve at-risk affordable rental properties, while long-term financing is assembled; (2) Interagency Coordinating Council: Collaboration of local, state, and federal agencies to strategize around preservation challenges, including identifying and working with at-risk properties; (3) Energy Savers Program: Technical assistance and low-cost financing for energy-saving improvements that reduce costs; (4) Rental Housing Data Clearinghouse: Collection and publication of assisted housing data, and analysis of market housing data to identify at-risk areas and properties; (5) Rental Housing Alliance: Tools to help residents preserve

- water and energy efficiency
- property taxes
- government-subsidized properties
- unsubsidized 1–4-unit properties
- streamlining government processes.

Table 4.2 summarizes the six current strategies of TPC prefaced by the main challenge that instigated the development of the strategy, actions TPC has taken within the strategy, and their primary accomplishments. Below we discuss in detail two of the strategies often cited as key accomplishments of TPC.

Key Accomplishments of the Preservation Compact

Of the strategies listed in Table 4.2, there are two particular initiatives that we view, and were cited by both CIC and other interviewees, as the strongest examples of TPC's impact.

The Energy-Efficiency Programs That Started in Chicago Have Expanded Statewide and Become a Model for Other States

Early in TPC, stakeholders identified energy use and property taxes as the variable costs that most threatened the viability of affordable rental housing. The response to the high cost of energy use was the creation of the Energy Savers Program by Elevate Energy in 2007, which started in Chicago and has since expanded statewide, along with a complementary loan program called Energy Savers Loan Fund founded in the same year to help owners finance retrofits.

With the help of four grants from the MacArthur Foundation over the period of 2007–2015,¹⁰ Elevate Energy¹¹ has provided to Illinois multifamily owners through its Energy Savers program technical services that include building audits and assessments, advising on strategies to save energy costs, consulting on accessing financing, construction oversight and building inspections once the upgrades are installed, and annual reports showing utility bill savings. As a supplement to Energy Savers, owners that need help with financing their retrofits can seek financing from CIC through the Energy Savers Loan Fund.¹²

As of April 2015, 47,000 units have been audited and 20,000 units have been retrofitted for energy conservation under the Energy Savers Program. Of the 20,000 units, 5,000 have been financed through the Energy Savers Loan Fund with \$17.6 million in loans or grants processed through the CIC for retrofitting these units (CIC, 2016). Because of the retrofits, on average, the units are saving 26 percent on their energy bills.

The Elevate Energy interviewee and others have pointed to three main reasons why energy efficiency programs for owners of multifamily properties had failed in the past. The first reason was owners' lack of incentive to invest in energy efficiency upgrades when a substantial share of the cost savings are realized by tenants (not the owners) on their residential account util-

the affordable buildings and neighborhoods in which they live; and (6) Lower Property Taxes: Strategies for reducing property taxes on affordable, multi-unit buildings.

¹⁰ The MacArthur Foundation awarded Elevate Energy \$1,025,000 between 2007 and 2015.

¹¹ Formerly CNT Energy.

¹² CIC received several PRIs from the MacArthur Foundation starting in 2007 in support of the new "energy savers" loan fund for TPC and in 2011, a \$5,000,000 grant to support a ten-year PRI to increase the lending capacity of the Energy Savers Loan fund.

Table 4.2
The Preservation Compact's Strategies, Actions, and Accomplishments

| Challenge and Resulting Strategy | Actions | Accomplishments |
|--|---|---|
| <p>Challenge: High operating costs.</p> <p>Strategy: Manage operating costs</p> <p>For both subsidized and unsubsidized affordable rental properties, managing operating costs is key to maintaining affordability. The most significant of these are energy and property taxes.</p> | <p>Reduce energy costs:</p> <ul style="list-style-type: none"> • With a goal to retrofit properties to reduce energy use, the Energy Savers program was launched in 2007 to make information and financing available for multifamily energy retrofits. Energy Savers is full service, and guides owners and managers through retrofitting processes. The companion Energy Savers Loan Fund provides low-interest loans for retrofits. <p>Reduce property taxes:</p> <ul style="list-style-type: none"> • TPC successfully advocated for changes in the system of property tax assessment in Cook County. • TPC spearheaded an effort to inform property owners about how to appeal their property's valuation. • TPC helped the Illinois Housing Development Authority's (IHDA) create a proposal for a tax freeze for buyers of vacant 1–6-unit properties. IHDA used the proposal to formulate legislation that passed in 2014. | <ul style="list-style-type: none"> • Between 2008 and February 2015, the Energy Savers Program has retrofitted 20,000 units of rental housing. Of these, more than two-thirds were self-financed by the property owners. CIC has financed over \$16,000,000 in loans and grants for energy retrofits for more than 5,000 units. • TPC energy working group (co-chaired by Enterprise Community Partners) led efforts to expand a state-wide on-bill financing program to include multifamily properties. Legislation was passed to support the expansion—the program was launched in 2014. CIC administers the multifamily on-bill financing program. • In 2009, Cook County established a uniform assessment rate for all residential property, reducing the share of property taxes paid by multifamily rental properties by 15 percent between 2005 and 2011. The uniform assessment rate is still in effect. |
| <p>Challenge: Deteriorating conditions and improved market conditions can lead to the loss of valuable assisted properties.</p> <p>Strategy: Launch direct interventions</p> <p>TPC helps coordinate government agencies, building owners, and tenant advocates to ensure properties retain their subsidies. The group also includes participants like the Sargent Shriver National Center on Poverty Law, who help to represent the tenant's perspective.</p> | <p>Coordinate planning:</p> <ul style="list-style-type: none"> • TPC convenes an interagency working group monthly, which includes HUD, the Illinois Housing Development Authority (IHDA), Cook County, the City of Chicago, the Sargent Shriver Center on Poverty Law, the Chicago Rehab Network, and CIC. • Using data from public agencies and DePaul University's Institute for Housing Studies, TPC working groups monitor subsidized properties and intervene when contracts are expiring or when building conditions deteriorate. • For properties with building condition problems, or if contracts are at risk of being lost in strong markets, TPC coordinates with tenant advocates, building owners, and government agencies to encourage property stabilization and affordability. | <ul style="list-style-type: none"> • According to its 2014 annual report, TPC working group and its partners had addressed more than 30 properties with over 4,000 assisted units. |

Table 4.2—Continued

| Challenge and Resulting Strategy | Actions | Accomplishments |
|--|--|---|
| <p>Challenge: Inefficient compliance processes.</p> <p>Strategy: Consolidate compliance requirements</p> <p>TPC is helping government agencies coordinate compliance processes with standardized forms.</p> | <p>Standardize processes:</p> <ul style="list-style-type: none"> • TPC brought together the City of Chicago, Cook County, and IHDA to evaluate their compliance processes for properties they jointly finance. • The three agencies are working together to create standardized, shared forms and to coordinate compliance activities. • The group is working to consolidate additional compliance requirements. | <ul style="list-style-type: none"> • In 2013, the uniform Tenant Income Certification form was launched to replace the 3 separate forms the City of Chicago, Cook County, and IHDA had used previously. • In 2015, the City of Chicago, Cook County, and IHDA released 3 new joint compliance forms (Tenant Profile Form, Tenant Selection Plan Checklist, Rent Schedule Form). |
| <p>Challenge: Aging housing stock.</p> <p>Strategy: Encourage investment</p> <p>Buildings with 5 to 49 units account for more than one-third of the rental housing in Cook County. Data trends showed a lack of available credit for these properties—especially in low- and moderate-income communities. Encourage rehabilitation by increasing access to credit among owners of 5–49-unit rental properties in low- and moderate-income areas.</p> | <p>Increase investment:</p> <ul style="list-style-type: none"> • TPC raised this issue by working with DePaul University’s Institute for Housing Studies to analyze small multifamily (5–49-unit), unsubsidized properties. • TPC convened a forum in 2013 and in 2014 to improve access to financing for small multifamily rental properties. | <ul style="list-style-type: none"> • HUD developed its new pilot risk-sharing program targeting 5–49-unit buildings with substantial input from CIC. It was expected to start in 2015. • The Federal Housing Financial Agency included 5–49-unit lending as a subgoal in its Enterprise Housing Goals Proposed Rule. • Freddie Mac initiated a new lending program aimed at small multifamily buildings (\$1 million–\$5 million). |
| <p>Challenge: Lack of financing for 1–4-unit rentals encourages disinvestment.</p> <p>Strategy: Address underserved market segments and community development</p> <p>Owners of small (1–4-unit) unsubsidized multifamily rentals are an underserved but significant share of the affordable housing market.</p> | <p>Provide assistance to 1–4-unit property owners:</p> <ul style="list-style-type: none"> • Analysis by DePaul University showed that 1–4-unit properties comprised 48 percent of Chicago’s rental stock. • TPC convened a working group to evaluate the issue, and found a gap in financing products for this stock. The working group requested that CIC develop a loan program to fill the market gap. • TPC helped develop a new loan product to provide financing to responsible investors interested in redeveloping smaller residential buildings (1–4 units) as rental property. <p>Increase investment in distressed neighborhoods:</p> <ul style="list-style-type: none"> • Chicago’s Micro Market Recovery Program is a neighborhood stabilization initiative targeting small geographic areas that are experiencing higher-than-normal problems with foreclosures. • TPC and CIC helped to develop the program and serve on an ongoing steering committee to guide efforts. | <ul style="list-style-type: none"> • In 2014, CIC launched the 1–4 Unit Rental Redevelopment Loan Program. The new \$26 million loan pool will make financing available to rehabilitate and pre-serve groups of 1–4-unit buildings as affordable rental housing. |

Table 4.2—Continued

| Challenge and Resulting Strategy | Actions | Accomplishments |
|---|---|---|
| <p>Challenge: Limited opportunities for owners and other housing stakeholders to share their experiences and learn about preservation.</p> <p>Strategy: Inform and expand the conversation</p> <p>TPC shares best practices, provides technical assistance, and organizes workshops to help owners better manage and maintain affordable rental property and bring more voices into policy discussions.</p> | <p>Hold workshops and forums*:</p> <ul style="list-style-type: none"> • Since 2011, TPC has hosted workshops and forums on topics ranging from energy efficiency to new HUD programs and compliance rules. • TPC worked to include more building owners in policy discussions, creating ties between housing practitioners and policymakers. | <ul style="list-style-type: none"> • Between 2009 and 2014, TPC has held 12 convenings with 1,274 attendees. |

SOURCE: Information provided by Jack Markowski and Stacie Young of CIC.

NOTES: CIC lists seven strategies for TPC. Based on discussions with the TPC director, we chose to consolidate two of the strategies: community investment and addressing underserved market segments.

* Appendix Table A.1 documents in chronological order the events that TPC has organized.

ity bills. The second reason was that the upgrades in multifamily rentals, as opposed to larger commercial projects, are often less cost effective due to their relatively small size. A third reason was the prohibitive approvals from current lenders to add an additional lien on the property, along with HUD's outright prohibition on borrowing the additional funds required to invest in energy efficiency upgrades.

The Energy Savers Program was able to address some of these challenges through its program delivery method. TPC created a working group to further expand resources for multifamily retrofits and educated utilities about the importance of multifamily retrofits. Building on these utility relationships, working group partners expanded Illinois's on-bill financing program to include multifamily properties. The program, administered by Illinois utility companies, allows property owners to install energy-saving improvements and pay for them on their utility bills.

Elevate Energy had to demonstrate the demand for such a program because many building owners viewed their utility costs as fixed and therefore not subject to potential savings. Elevate Energy needed to convince owners to recognize that utility costs were variable, that their buildings were actually fairly energy-intensive, and that there were cost-effective steps they could take to reduce utility costs.

The Energy Savers Program has not only expanded statewide, it has also become a model for other states (Elevate Energy, no date). For example, Elevate Energy is now helping the Michigan Energy Options launch a full-service energy efficiency initiative focused on serving the affordable multifamily sector. Elevate Energy staff are also providing Action Housing, located in Pittsburgh, with technical expertise, tools, and templates to help establish "The One Stop"—an energy efficiency services initiative. In Louisiana, Elevate Energy in collaboration with New Ecology, Inc., and Green Coast Enterprise is supporting the start-up of an energy services company that provides building owners in the southeastern United States access to energy efficiency expertise as well as building energy management services.

The 1–4 Rental Redevelopment Loan Program Has Tackled an Underserved, Large Segment of the Affordable Housing Stock

As part of TPC's strategy for addressing underserved market segments, TPC identified through the research work of its partner DePaul growing disinvestment among unsubsidized 1–4-unit rental properties. TPC established a working group to evaluate this issue and then worked with CIC to develop a new \$26 million loan program to finance investor-owned 1–4-unit properties (The Preservation Compact, 2014). The 1–4 Unit Rental Redevelopment Loan Program was launched in 2014. The idea was to support investors to make targeted redevelopment in struggling neighborhoods, particularly those identified by the City of Chicago's Micro Market Recovery Program, which targets small areas with higher-than-average foreclosures.

Analyses by DePaul University's Institute for Housing Studies helped inform TPC working group's understanding of rental housing in this segment of the market. The Institute for Housing Studies' analysis surprisingly showed that approximately 33 percent of the rental housing stock in Cook County was composed of 2–4-unit buildings (DePaul University, 2012). In light of the 2008 recession, these buildings also accounted for a large portion of the distressed stock, especially in those neighborhoods hardest hit by foreclosures. According to the Institute for Housing Studies, "Between 2005 and 2011, nearly 32 percent of the units in two-to-four unit buildings in Cook County's low-income communities were affected by a foreclosure filing and 22 percent in moderate-income areas" (DePaul University, 2012). These

buildings, which had been regarded as single-family buildings for financing purposes and were previously owner-occupied, were now being left vacant and abandoned in spite of a demand for rental units in these neighborhoods. As discussed below, there were limited financing options available for investor purchases of buildings with these few units (DePaul University, 2012).

In developing a strategy for 1–4-unit rental properties, there were several key barriers to address. Although there was a significant need and demand for many of the rental units in these buildings, available loan products were not geared to support this market segment. A TPC working group noted that there were a number of entrepreneurs who were buying and rehabbing these buildings and running them as rental properties, but no standard financing tools were available to them. Instead, these entrepreneurs turned to friends and family to invest in their rehabilitation efforts, and although they were making decent returns on their investments, the investments were smaller than if commercial loan products suitable for their properties had been on the market.

The second major structural barrier TPC discovered was very low appraised values for these properties given the weak housing market in the wake of the recession. This made the appraised value of the home, which was dominated by distressed sales activity, much lower than the total cost of purchase and rehab. Even if bank loans were available, banks typically will not finance more than 80 to 90 percent of the appraised value of a property. This created a large gap between the total cost of acquisition and rehab and the amount that could be borrowed. Other barriers noted by TPC were disproportionately high property taxes that did not reflect the buildings' use as rental housing in a distressed market and the availability of only short-term, expensive loans that triggered reappraisal each time (with some appraisals indicating lower values) rather than longer-term permanent financing to replace what limited forms of short-term acquisition and construction financing were available.

The \$26 million 1–4 Unit Rental Redevelopment Loan Program made financing available to rehabilitate and preserve groups of 1–4-unit buildings as affordable rental housing. The program is intended to help finance clusters of distressed 1–4-unit buildings in neighborhoods by providing a takeout term loan for groups (9-unit minimum) of distressed 1–4-unit buildings already purchased and rehabbed by investors to complement public and private redevelopment efforts in low- and moderate-income communities. According to Markowski, the program is able to make 120–125 percent loans to value and allow owners to maintain strong cash flow on these buildings. The 1–4 Unit Rental Redevelopment Loan Program was capitalized by 11 bank investors, a PRI of \$5 million by the MacArthur Foundation, and a \$2 million grant from the Attorney General's foreclosure settlement funds; the pool was administered by the CIC.

The Features of The Preservation Compact Credited with Enabling Its Success

The combination of interviewees and our review of TPC documents revealed six characteristics of TPC that they or we viewed as integral to its accomplishments.

MacArthur's Involvement Gave Credibility to the Compact

Interviewees cited the MacArthur Foundation's financial commitment to TPC and MacArthur's reputation as an objective, neutral, respected broker as key to convening a wide range of stakeholders and keeping them engaged. The experience and knowledge of Julia Stasch was also cited as a key factor in drawing to TPC the experts and funders needed to tackle the complex problems facing Cook County's affordable rental housing stock. As one interviewee noted,

“This diverse wide-ranging group of people would not have come together in the beginning without the initiative and coordination and convening of MacArthur.” Even though TPC had “matured” and developed its own reputation locally and was thus less reliant on the foundation by 2014, TPC members stressed the importance of MacArthur’s ongoing participation in TPC after MacArthur’s grant ended. This was partly for continued credibility and also for the optics of convening in a neutral space.

Interviewees also credited MacArthur’s involvement with the ability to get the “right people” involved on a regular basis: “The folks we had at the table were the right folks and had the ability to get it done.” Meeting together over time enabled TPC members to build familiarity and trust. As one local government employee told us, “It really got us to know our partners that much better, and I guess we thought of each other as partners, rather than, ‘Oh my God, that’s the City,’ or ‘What does MacArthur want now?’”

The Preservation Compact’s Tenure Enabled Trust as Well as Give and Take Among Stakeholder Interests

As we heard in interviews with other grantees, TPC grantees stressed the benefits of the long-term funding commitment of the MacArthur Foundation. This long-term funding allowed TPC to convene the diverse group of government agencies, nonprofits, building owners, tenant advocates, and other housing stakeholders many times over several years in a public/private-sector partnership to collaborate on addressing the most pressing problems facing the affordable rental housing stock in Cook County. TPC came to be seen over time as a safe space to have candid conversations among the stakeholders, enabling them to identify properties particularly at risk, devise strategies, and solve problems. One interviewee stressed the importance of having the same set of actors to develop trust, share understandings of problems, and engage in legitimate give and take.

A Backbone Organization Was Critical to Making The Preservation Compact Happen

The fact that MacArthur funding also supported the administrative component of TPC and that TPC had dedicated administrative staff with expertise in preservation were cited as important. The Urban Land Institute and then the CIC served as a “backbone organization” to convene the working groups, set the agenda, and set action steps resulting from meetings of the public/private groups of stakeholders. Several interviewees commented that not all foundations would recognize the importance of funding the administrative component of an initiative. As one interviewee told us, “We just can’t imagine anyone else doing this just straight operating support to fund staff and . . . people to convene and bring this collaboration together to pursue these policy ends.”

There Was a Sufficiently Diverse Group of Expertise and Perspectives to Seed New Innovations over Time

The regular standing meetings among a wide variety of entities allowed the partners to capitalize on complementary skills to accelerate their initiatives. As one grantee told us:

It was great for us because it also helped us [from utilities and energy usage] understand more and more about the affordable housing market and the players, but it was also I think good for the groups that were working on the interagency task force and working with the tenants, because we were able to deliver benefits that helped preserve the buildings.

For example, the multidisciplinary nature of TPC helped the Energy Savers Program grow more quickly than it otherwise would have by giving the new program credibility with owners and generating demand for its services. The energy working group within TPC helped develop ideas for Energy Savers, to which the MacArthur Foundation gave seed money to CIC for the proof of concept and then a \$5,000,000, ten-year PRI to increase the lending capacity of the Energy Savers Loan fund. Prior to this program, there was no active stand-alone multifamily retrofit loan program addressing energy efficiency; the interviewee noted that the Energy Savers Program is now the largest energy conservation program of its kind in the country, and other jurisdictions are replicating it. The PRI also enabled the Energy Savers Program to later receive \$8.5 million from Bank of America for low-cost energy loans and administration to expand its energy-efficient retrofit financing programs (CIC, 2016). As a TPC member told us, “It was definitely a win-win-win to have everything in coordination and working together rather than having these separate initiatives.”

The Data Assembled and Analyzed by DePaul’s Institute of Housing Studies Were Viewed as Important to Informing the Work of The Preservation Compact

The data clearinghouse and analyses and reports by the Institute of Housing Studies were cited as a critical element of TPC. The Institute of Housing Studies’ involvement helped to frame the issues on which TPC would come to focus, such as the “bifurcated challenge” of not just the upside but also the downside risk facing affordable rental housing. Their analysis further surprised TPC’s working group members as they learned that 33 percent of the rental stock in Cook County and 38 percent of the rental stock in the City of Chicago consists of 1–4-unit buildings, which led to the development of a strategy and loan program to address the need in this area. The data and information provided by DePaul also helped to make conversations more concrete as TPC partners examined resulting lists of at-risk properties and strategized systematically about an approach to them.

Support of The Preservation Compact’s Interagency Council Was Viewed as an Important Vehicle for Addressing Government-Subsidized Properties

The Interagency Council, comprising the local HUD office in Chicago, the IHDA, Cook County, and the City of Chicago, was an innovation that allowed the public sector to more comprehensively and proactively monitor government-subsidized properties and to intervene when contracts are expiring or when building conditions deteriorate. In the absence of such a group, one interviewee told us,

We would all try to do it on our own and then reach out individually as issues arise. We’re not all strangers and people know each other to act, but it would still end up being an individual process. But if you have a common venue [such as TPC] it spurs people to bring issues to that place.

Again, the long-term nature of the committee allowed members to build the trust that enabled them to triage at-risk properties, which often necessitated pooling resources.

Lessons Learned

The Cook County Preservation Compact is an important model of interagency collaboration for addressing the preservation of affordable rental housing. Some key lessons learned that might benefit other jurisdictions committed to preservation include:

1. Seek a founding funder, such as a foundation or other entity, that is seen as a neutral and respected broker. It is important to bringing a diverse set of stakeholders to the interagency planning table and to keep them engaged.
2. Create an interagency council composed of a diverse group of members with varied expertise that can find a middle ground. As an interviewee told us, “A foundation of The Preservation Compact is that we try to reach a consensus, and if there is a consensus we will act on it. . . . The Preservation Compact often is able to find the middle ground . . . in these discussions.” The working groups were by design inclusive of leadership and support staff and as many stakeholders as were interested.
3. Prioritize continuity of the interagency group so as to seed new innovations over time. The working groups served as a way for TPC to engage a wide range of interests important to preservation. The regular standing meetings among a wide variety of entities allowed the partners to capitalize on complementary skills to accelerate their initiatives.
4. Sustain engagement of agency and organizational leaders over time. Having the high-level, sustained engagement of agency and organization leaders that comprise the interagency council is important. As one interviewee noted, having the right people in the right level of involvement is important in that it sends a signal of their organization’s commitment, and these leaders are able to make commitments for their agency or organization during discussions of the council.
5. Fund the administrative component of the interagency council. Having dedicated administrative staff that can convene the council and its working groups, set the agenda, set action steps, and do follow-up is essential to sustain the work of the council.
6. Ground policymaking in detailed data on and analysis of the preservation issues in a jurisdiction. The data collected and analyzed by DePaul’s Institute of Housing Studies informed TPC’s understanding of and framed the preservation problems facing Cook County. This information also informed the development of different strategies and programs by TPC.

State and Local Environment: The State and Local Housing Preservation Leaders Initiative

Introduction

Throughout the early 2000s, as the MacArthur Foundation issued preservation-related grants and loans to actors working across multiple housing markets and states, foundation staff members increasingly recognized the centrality of state and local governments to preservation activity. One MacArthur Foundation document from 2005 noted:

It was promising to see that states and localities also are creating or expanding their own array of important funding sources and incentives, including: property tax exemptions, donations, tax credits, real estate transaction-related surcharges and user fees, trust funds, guaranty products and bond insurance programs.

The MacArthur Foundation also gained a deeper understanding over the course of the Window of Opportunity initiative of the power that state and local governments have to impact preservation—a development that our interviewees also confirmed.

In 2006, the MacArthur Foundation began discussing ideas for a new initiative designed around state and local government (with the goals discussed in Chapter Three); it was launched in 2008. This case study first provides an overview of the State and Local Housing Preservation Leaders initiative. We then describe the accomplishments of three of the 12 total State and Local Housing Preservation Leaders grantees: Minnesota, Ohio, and Oregon/Portland. In an effort to benefit other state and local government actors, we focus on how the grantees achieved outcomes, and which activities have been sustained beyond the grant period.

Overview of the State and Local Housing Preservation Leaders Initiative

As described in Chapter Three, the MacArthur Foundation's board approved \$35 million in funding for the State and Local Housing Preservation Leaders initiative in 2007. The MacArthur Foundation then issued a request for proposals on January 1, 2008, asking applicants to describe how they would design, demonstrate, or scale-up preservation initiatives. The request for proposals required government actors to have a role.¹³ Over 80 teams submitted letters of interest, representing 40 states. This high response rate surprised many involved. One interviewee reflected on the creativity of the initiative when they recalled thinking, "God, this is brilliant—the relatively small amount of money influencing the money allocators seem like it's a high payoff."

The MacArthur Foundation and associated consultants conducted 21 field visits to finalists in 15 states, four cities, one city/county partnership, and one county. They ultimately selected 12 grantees, each of which had a history of effective intergovernmental cooperation and a strong potential to influence preservation policy.

The MacArthur Foundation expected that grantees would undertake some common approaches to increase the number of units preserved. These included, but were not limited to, the following:

- generating more information and analysis on preservation
- finding new resources for predevelopment and acquisition
- outreach to owners and tenants
- strengthening nonprofit capacity to preserve properties
- creating more interagency conversations around and coordination of preservation efforts.

This last example has been described by MacArthur Foundation staff as "cementing local tables" around preservation in these locales. The MacArthur Foundation anticipated that the coordinated preservation efforts of several state and city actors would both deepen their understanding of the importance of preservation and elevate its priority in the state—changing the general climate and culture around preservation. The MacArthur Foundation also hoped grantees would think in terms of "durable systems" that they could implement during the funding period, which would then sustain preservation efforts for years after the funding ended. These systems might include risk assessment algorithms based on improved preservation databases, which would increase the sophistication of individual actors and organizations to support preservation. Beyond these common expectations, the MacArthur Foundation hoped that grantees would employ varied strategies for preservation of privately owned affordable rental homes.

¹³ This initiative did not include public housing authorities.

As Table 4.3 illustrates, the State and Local Housing Preservation Leaders grantees proposed a wide variety of strategies for increasing preservation efforts, such as building consortia, launching new loan funds, improving market data, developing risk models, focusing on transit-oriented development, building the capacity of owners, conducting capital needs assessments, and increasing energy efficiency.

Most of the grantees have expended their grants, although some have no-cost extensions in place. One has prepaid due to lack of engagement. Although most of the PRIs have not yet come due, they have been put to use in grantee sites, with loans out to other borrowers in these locations.

Grantee Accomplishments

We highlight the accomplishments of grantees in Minnesota, Ohio, and Oregon/Portland because they collectively represent the full expression of the state and local preservation activities. Lessons learned from these case studies should be useful to affordable rental housing preservationists across the country. Accomplishments and lessons learned are compiled from project reports and interviews with grantees.¹⁴ Unless otherwise noted, the sources of quotations in this chapter are from these interviews.

Table 4.4 provides an overview of these grantees' accomplishments according to organizational actions and outcomes. Below, we briefly describe examples of each.

Organizational Measures of Success

Databases and Risk Modeling

Arguably, the most important activities these grantees undertook were building data systems and solidifying which groups would use these data to prioritize properties at risk of loss. All three grantees used MacArthur Foundation funding to create or further develop databases that could be used to set priorities around preservation. New systems in both Ohio and Oregon/Portland drew on publicly available data to identify subsidized properties throughout their states. Prior to their work, there was no single source in Ohio that stored the location of all the subsidized properties in the state. Developers can now search for properties by city, and both Ohio and Oregon/Portland interviewees described using these data as policy tools. Minnesota created a Loan Performance Portfolio tool. Not only do property owners submit data on rents, incomes, and types of subsidies into this system as a matter of course in complying with funding obligations, but as a result of the MacArthur Foundation funding, owners now also submit maintenance and operations data into the Loan Performance Portfolio tool. State agency staff used the Loan Performance Portfolio tool data to develop scoring criteria—e.g., costs per unit, amount of reserves per unit—to rank properties by risk category. These data also inform the agendas of their working group meetings (described below), where they discuss which prop-

¹⁴ Interviewees and interview dates are as follows: Robyn Bipes, director of programs and lending, Greater Minnesota Housing Fund (March 31, 2015); Anne Heitlinger, preservation manager, Minnesota Housing (March 20, 2015); Rob Prasch, preservation director, Network for Oregon Affordable Housing (March 16, 2015); Patrick Shea, multifamily emergency response coordinator, Oregon (March 27, 2015); Angie Skildum, multifamily policy and portfolio director, Family Housing Fund, Minnesota (March 31, 2015); Sean Thomas, chief of staff, Ohio Housing Finance Agency (March 17, 2015); Mary Tingerthal, commissioner, Minnesota Housing (March 20, 2015); Bill VanVliet, executive director, Network for Oregon Affordable Housing (March 16, 2015); and Jonathan Welty, vice president, Ohio Capital Corporation for Housing (March 27, 2015).

Table 4.3
State and Local Housing Preservation Leaders Awardees

| Awardee* | Proposed Activity | Units | Grant | PRI |
|------------------------|--|--------|---------------|---------------|
| Ohio | Create a preservation compact that includes a new loan fund, nonprofit training, and a new forum for tenants, advocates, and public officials to engage in housing policy debate. | 14,000 | \$1 million | \$4 million |
| Oregon and Portland | Support a multibank consortium's efforts, including a new acquisition loan fund, to assist nonprofit developers manage the complex regulatory processes associated with preservation transactions. | 7,600 | \$1 million | \$4 million |
| Maryland | Implement a county-level preservation strategy encompassing improved affordable housing market data and comprehensive owner outreach in the eight counties that expect a large influx of military personnel. | 10,000 | \$500,000 | \$4 million |
| Massachusetts | Create an interagency working group to oversee the development of an early warning system and establish a preservation loan fund for preserving at-risk affordable rental housing throughout the state. | 9,000 | \$1 million | \$3.5 million |
| Vermont | Accelerate preservation of and reinvestment in affordable rental housing through targeted outreach and technical assistance for private owners and nonprofits, energy efficiency, predevelopment, bridge loans, and a demonstration using Medicare/Medicaid for supportive services for senior housing. | 5,200 | \$600,000 | \$2 million |
| Iowa** | Broaden an ongoing statewide effort to preserve rural subsidized rental housing for seniors and individuals with disabilities by creating an subsidized rental housing database, an analytic tool to determine the feasibility of preservation projects, and provide intensive technical assistance and lending to preservation-minded developers. | 1,200 | \$400,000 | \$2 million |
| Denver | Establish a new loan fund for transit-oriented development that preserves affordable rental housing near existing and expected regional public transit system stops. | 500 | \$250,000 | \$2 million |
| Minnesota | Expand existing programs on preventative activities to preserve subsidized rental housing and explore preservation strategy for unsubsidized affordable rental properties. | 12,000 | \$750,000 | \$1.5 million |
| Florida | Build the capacity of nonprofit organizations to preserve affordable rental housing through offering technical assistance and use of enhanced housing market data. | 5,000 | \$1 million | \$0 |
| Washington and Seattle | Enhance existing preservation programs and demonstrate best practices in the long-term operation of affordable rental housing by providing training, technical assistance, and capital needs assessments to improve asset management systems of nonprofit owners. | 3,200 | \$1 million | \$0 |
| Los Angeles | Integrate the city's preservation efforts, such as technical assistance, financing, and outreach, into a single office and preserve single room occupancy units by conducting community outreach in the downtown area and increasing the capacity of two local nonprofit developers and owners. | 2,400 | \$1 million | \$0 |
| Pennsylvania | Determine through a statewide initiative—representing the largest test in the country—under what circumstances and to what extent do energy-conserving improvements result in the preservation of affordable rental housing. | 5,000 | \$1 million | \$0 |
| Total | | 75,100 | \$9.5 million | \$23 million |

SOURCE: MacArthur Foundation. Contents shortened and reprinted with MacArthur Foundation's permission.

*Awardees listed by total size of foundation support. ** Iowa returned its funding after declaring statewide emergency due to flooding.

Table 4.4
Overview of Three Grantees' Accomplishments

| Grantee | Organizational Measures of Success | | | | | Outcomes | | |
|-----------------|------------------------------------|-----------------------------|-----------------------|-----------|-----------------------------------|-----------------------------|-------------------------------------|-------------------------------------|
| | Data Systems and Risk Models | Inter-Organizational Groups | Commissioned Research | Loan Fund | Training and Technical Assistance | Prioritized Through the QAP | Raised New Funding for Preservation | Preserved All of the Units Proposed |
| Minnesota | X | X | X | X | X | X | X | X |
| Ohio | X | X | | X | X | X | X | X |
| Oregon/Portland | X | X | | X | X | X | X | X |

erties need stabilization. These data can telegraph their state funding priorities through their QAP documents.

Inter-Organizational Groups

Grantees also used MacArthur Foundation funding to create or formalize inter-organizational working groups. In Minnesota, there are two interagency stabilization groups: one for Greater Minnesota and one addressing preservation in the Minnesota metropolitan area. Groups meet monthly (in Minnesota) to quarterly (in Ohio) to biannually (in Oregon/Portland). Members of these working groups tend to be similar in each of the three states. State finance agencies, HUD, USDA's Rural Development, and other local funders are represented on these groups in all three places. One interviewee noted that it is uncommon for HUD and Rural Development to "sit in the same room together on a regular basis" as they do in these locales. In both Minnesota and Oregon/Portland, city agencies are also members. In Ohio, advocates for residents and property owners often attend these meetings. In Oregon/Portland, property owners have not been members of these groups.

In all cases, these groups act as "central intakes for concerns" but also proactively address the preservation pipeline. Conversations in Oregon/Portland focus on, "When are expirations happening? Who are the owners?" In Ohio, Rural Development presents properties coming to the end of their loan term. People bring to the Minnesota Interagency Stabilization Group meetings any properties "that have come up on anyone's radar screen." HUD may bring a list of two projects going to foreclosure, and, as is the case in Ohio, Rural Development may create a monthly list of developers eligible for pre-pay. Grantees reported that these meetings are the only opportunity for these regular conversations with HUD and Rural Development. Interviewees also noted that having key funders in regular communication with each other prevents developers from "shopping" funders individually in an attempt to get the best deal possible.

In all three cases, the inter-organizational groups were credited with keeping some HUD functions (e.g., asset management staff in Ohio, the maintenance of a regional satellite office in Minnesota) in the state during the HUD multifamily field office consolidations.

Commissioned Research

Minnesota used some of its MacArthur Foundation funding to commission research on the issues and opportunities surrounding unsubsidized affordable housing. A dialogue on recognizing these opportunities is now underway among developers, funders, and collaboratives such as the Regional Council of Mayors. There are ongoing discussions about creating locally

funded rental assistance programs for these properties. The McKnight Foundation is interested in exploring these opportunities. No program has come out of this work yet, but the Family Fund and the Greater Minnesota Housing Fund have developed a joint work plan to further investigate capacity building, data, financing, policy, and other tools to support unsubsidized affordable rental housing.

Preservation Loan Funds

All grantees used PRIs from the MacArthur Foundation to develop preservation loan funds. In Ohio, establishing the loan loss reserve with MacArthur Foundation funding attracted investors. Loan funding in Ohio helped investors prepare for the 9 percent tax credit funding competitions. It also helped them secure deals that they would not have been able to secure otherwise. For example, an experienced nonprofit in Columbus, Ohio, that provides services and housing for mentally ill and chronically homeless people had been working for five years to do a refinance of a \$20 million project with 250 units. The same month that Ohio Capital closed on the MacArthur PRI, they closed the \$18 million Ohio Preservation Loan Fund. Immediately following the creation of the Ohio Preservation Loan Fund, the fund closed a \$5 million loan to take out bonds that began a four-year phased development and rehabilitation of the 250 units with its nonprofit owner. Without funding from the MacArthur Foundation, “That deal would never have happened. There’s not another flexible source that could do what we did.”

Oregon/Portland interviewees described their loan fund as “very powerful”: “Being able to have money set aside to respond fairly quickly to market opportunities is irreplaceable.” They are not fully subscribed, but it has given them “an enormous amount” of flexibility in their housing system. In Minnesota, the recipient immediately re-loaned the MacArthur Foundation PRI funds and received in response a “clamor for capital.” The Greater Minnesota Housing Fund subsequently created its own preservation revolving loan fund to which it added funding from a Preservation Revolving Loan Fund from RD. The Greater Minnesota Housing Fund also acquired a NeighborWorks loan loss reserve for this preservation pool. This loan funding has been used primarily for rural, “hard-to-do” deals. There is reportedly more demand for this funding than can be met.

Technical Assistance for Preservation

All of the grantees used some of their MacArthur Foundation funding to build the capacity of nonprofit owners in their states. For example, funding to support Network for Oregon Affordable Housing allows the executive director to meet one-on-one with developers and walk them through preservation transactions. As an off-shoot of the MacArthur Foundation funding, the Greater Minnesota Housing Fund used its own funds to create a preservation underwriting curriculum, which is delivered during a two-day training module. This training was originally developed for rural developers, but it has also led to funders now consistently applying capital needs assessments and coordinating on appraisals.

Outcomes

We now turn to the outcomes grantees realized during their tenure in the State and Local Housing Preservation Leaders initiative.

Qualified Allocation Plans

Data from the new or improved data systems drives grantees’ QAP decisionmaking processes. The QAPs then telegraph to developers that preserving low-income rental housing is a priority.

Both Ohio and Oregon/Portland do this through setting aside a proportion of the 9 percent tax credits for preservation. When the State and Local Housing Preservation Leaders initiative began, Ohio increased the portion of tax credits set aside to 50 percent. It is now down to approximately 35 percent, which, although lower, continues to emphasize the importance of preservation. In Minnesota, there are no set-asides, but developers receive points based on their application, and awards are made based on these points. In 2008, developers received 20 points if they proposed a project with existing tax credits and federal rental assistance. Today, a developer with this proposal would receive 35 of a maximum of 200 points. This “tips the scale” toward preservation. Minnesota Housing recently set a ceiling: As of 2015, no more than two-thirds of allocations can go toward preservation so that they do not “crowd out new construction.” Interviewees in all three locations reported that the emphasis on preservation through their QAPs has changed developers’ mindsets: “They want to do preservation because they want to get the QAP points.”

Minnesota has had to offer a significant number of points for preservation because of the substantial burden placed on developers to prove that their proposal is worth funding. The Minnesota QAP asks developers to quantify the property risk in one of three categories: (1) the risk of converting to market rate in the current issue, (2) property conditions, or (3) owner capacity. Developers have to estimate risk in one of these three areas “in a way that is technical and quantifiable.” The points in the QAP “have to be worth their while, because this work is hard.” Developing these risk categories and the methods for proving risk has been a challenge for the state housing finance agency as well. It has had to develop underwriting standards and risk checklists to ensure impartiality and objectivity in funding. It continues to strive for balance between ensuring a fair process and not overburdening developers.

Attracting Additional Funding from Other Sources

While the grantees had the MacArthur Foundation funding, all three were successful in attracting additional funding for preservation. In Oregon/Portland, Meyer Memorial Trust has provided funding for the next four years to continue the preservation work at the Network for Oregon Affordable Housing. In 2012, this Network received a \$3 million HUD Energy Innovation Fund grant to support the MPower program, a wholly owned subsidiary that provides financing to enhance energy efficiency in affordable multifamily rental properties. In Minnesota, the state allocated bond funding in 2012 and 2014 in the form of housing infrastructure bonds. These bonds can be issued to allow access to the 4 percent tax credits. These bonds were described as “A great gap filler. A perfect tool for preservation deals. A small miracle for housing.” The McKnight Foundation is investigating PRI funding and is talking with the MacArthur Foundation about how to best use this tool. In Minnesota, there are sub-allocators of tax credits. The QAPs in Minneapolis and St. Paul now prioritize preservation, and “that happened over time as a result of the MacArthur work.” Minnesota has also received new grants from RD. Interviewees reported that making the case for the MacArthur Foundation funding helped them to receive this additional funding. They established and continued to re-hone their narrative, and have been able to successfully “make the case for” additional funding for preserving rural properties.

Preserving Units

The PRIs issued to these grantees are still in force; nonetheless, they all reported having already exceeded their original goals for the number of low-income rental properties that they would

preserve during this initiative. Interviewees also noted that they had lost few projects to opt-outs or pre-payments. In Oregon/Portland, interviewees had thought they would lose 15 to 20 percent of their low-income rental properties; instead, they reported only losing 7 to 8 percent of these properties. All noted the importance of the MacArthur Foundation funding in preserving these units. As an Oregon/Portland interviewee noted, “We would have half the units preserved at most, maybe even far less, without the MacArthur funding.”

Enablers of Grantee Success

The MacArthur Foundation recognized that several facilitators of success were in place in all three profiled locations before granting them funding. In selecting these grantees, the MacArthur Foundation identified preservation leaders who had been working together for several years prior to this initiative. Their joint history and high capacity enabled them to capitalize on the State and Local Housing Preservation Leaders opportunity. Joining the initiative, and receiving the funding that came with it, enabled the grantees to preserve more low-income rental housing units than they would have otherwise and to strengthen their ongoing preservation efforts.

Long-Term Commitment to Preservation

Interviewees noted that the will to conduct preservation was strong even before they were awarded the MacArthur Foundation funding. Minnesota started to focus on preservation in the late 1990s as some of the earliest LIHTC developments, which had been allocated relatively small tax credit awards, began to physically deteriorate before the affordability compliance period ended. In response, the Family Housing Fund established an Interagency Stabilization Group to bring actors together to discuss the problems resulting from these early deals involving small allocations of tax credits. Ohio began to focus on preservation in 2000 as the state waded into the Mark-to-Market program¹⁵ to extend the affordability of project-based Section 8 properties, of which Ohio had the eighth largest inventory in the United States as of 2013 (HUD PD&R, 2015). The MacArthur Foundation opportunity “dovetailed into [Ohio’s] thinking.” In Oregon, there was a focus on preservation dating back to the early 2000s when some owners of properties with project-based Section 8 subsidies prepaid their mortgages. The state finance agency refinanced and underwrote the Section 8 rents. Subsequently, lost rents meant that these projects were losing a combined \$400,000 per year. These losses galvanized the local HUD office to work closely with the state housing finance agency to focus on preserving low-income rental properties. Because of this early foray into preservation, actors in each of these places were well prepared to respond to the MacArthur Foundation’s call for State and Local Housing Preservation Leaders applications.

High-Capacity Organizations

In Ohio, Ohio Capital was able to provide technical assistance on preservation and establish a loan fund due to its experience in creating and operating an affordable housing loan fund in 2004. Ohio Capital also had a ready list of cultivated investors. In Oregon/Portland, Network for Oregon Affordable Housing had a strong reputation, and the local HUD office was credited with high capacity. In Minnesota, the two funds were described as “bringing incredible value” to the state’s preservation efforts. These funds had already worked to establish multi-

¹⁵ See Chapter Two for a brief description of the Mark-to-Market program.

organizational partnerships; these served protect preservation efforts during several transitions of state housing finance agency commissioners.

Benefits Conferred from Membership in the State and Local Housing Preservation Leaders Initiative

MacArthur Foundation funding created new state and local initiatives and cemented collaborations that were looser and less formal before the grant funding. Building on local political will already in place, this cementing was possible because of available operational funding. Oregon/Portland interviewees noted that their inter-organizational group would not have been as successful without the funding for Network for Oregon Affordable Housing to ensure that the group met on a regular basis. An Ohio interviewee noted that the operational funding there also led them to reinforce local partnerships. “The MacArthur Foundation gave us the pulpit, a place to talk from and convene people around.”

After receiving MacArthur Foundation funding, grantees launched new streams of preservation work both within their states and within the context of a larger grantee network. Grantees differed in their opinions on the influence of the grantee convenings, but some interviewees reported that they had a large, positive impact. For example, Ohio representatives interacted frequently with the Shimberg Center for Housing Studies in Florida when they were setting up their data system. Oregon/Portland interviewees noted “copying” aspects of the preservation compact from Cook County, including their interagency group work. Oregon also noted learning from Massachusetts’s loan fund and from Vermont’s work on small project preservation.

Factors Promoting Sustainability

Most of the grantee activities described here are still in place. Although there are concerns among some grantees about continuing to get data updates from USDA Rural Development in particular, most of the other preservation work is ongoing. The loan funds remain operational, with the MacArthur PRI repayment date yet to come. The inter-organizational groups are, as noted by an Ohio interviewee, “still going strong.” In Minnesota, “everyone assumes that the ISGs will be ongoing.” The group in Oregon/Portland meets less frequently than it used to, but stressed that this is not due to a lack of capacity or funding, but because the pipeline of properties in need of preservation has narrowed as nonprofits have successfully acquired many low-income rental housing properties and the remaining owners are not interested in selling.

In addition to being sustained in the grantee locales, the work is spreading. Oregon/Portland interviewees noted working with colleagues in Idaho on preservation. Minnesota noted the same for Iowa, and Ohio for Kentucky, which is looking to Ohio to provide expertise, particularly on the QAP and other state policies.

Sustainability and spread are likely to continue due to common goals, joint trust, an improved climate for preservation in these locales, increased developer capacity, and recently acquired preservation funding.

Common Goals and Joint Trust

Two factors—common goals and shared trust—are particularly important for the sustainability of grantees’ initiatives after initial philanthropic investments end. Ohio interviewees stressed that relevant agenda items (and the free lunch) has continued to ensure consistent meeting attendance: “The information-sharing benefits everyone.” Oregon/Portland inter-

viewees highlighted the trust that had developed among both staff and management group members. Some wondered if excluding owners from these working groups had helped to build this trust; one noted that, “this was a good thing because conversations would not have been as free.” Minnesota interviewees agreed that the continuity of the Fund staff had increased trust as they worked together over several years. Trust was also built as actors in these locales observed each other acting objectively, based on data from the new systems, even if data-driven decisions did not benefit each actor equally. Interviewees noted that building ongoing trust with some state actors, such as commissioners of state housing finance agencies, could be disrupted by turnover of those leaders. Having several organizations working jointly toward preservation is one strategy to protect those efforts during staff transitions.

An Improved Climate for Preservation

Most interviewees agreed that the climate for preservation in their states has improved. Oregon/Portland interviewees noted a growing awareness of the importance of safe and affordable housing to community sustainability and family success. They noted that their legislators are now aware of how housing impacts their citizens’ education, safety, and health. This was “not in their vocabulary like this five years ago. Elected officials are really starting to get it. Sometimes legislators bring up preservation before we do!” Minnesota interviewees noted that the initiative “changed the whole climate of preservation in Minnesota.” All three grantees also noted that advocacy groups in their states have embraced preservation. Ohio interviewees noted that the level of awareness had “definitively increased in terms of the importance of preservation because we now have good data.” They also noted that they now have a “better relationship with RD [USDA Rural Development].” However, an Ohio interviewee also noted that term limits in Ohio translates into the need to continue to build awareness of the importance of preservation—this interviewee was less optimistic that an improved climate for preservation would be sustained.

Increased Nonprofit Developer Capacity

As noted above, one goal of this initiative was to build the capacity of nonprofit developers in the grantee locales to undertake preservation. Where this has been achieved, the likelihood of continuing to preserve low-income housing properties is high. Interview responses varied in their assessment of how well the grantees achieved this goal. In Ohio, some interviewees agreed that there is now increased capacity among developers: “The development community has a better understanding of the importance of preservation and how to do preservation deals.” However, others in Ohio noted that although this may be the case, there are not enough nonprofit developers to do the “more difficult-to-develop projects,” and that the projects they need to now address, which include “old HUD programs and old tax credit properties,” are more challenging than what they have accomplished to date. Oregon/Portland interviewees noted that both the developers and the funders have become more sophisticated in terms of doing preservation deals. However, Oregon/Portland interviewees also noted that the loan fund in particular had built capacity in nonprofit developers, but only in a “handful” of them. Those that did choose to engage in this work increased their levels of sophistication in terms of preserving HUD and RD properties and increased their portfolios accordingly.

New Funding

Philanthropic funding in both Oregon/Portland and Minnesota has allowed much of the work that was initiated with MacArthur Foundation funding to continue. Funding from the Meyer

Memorial Trust allows the Network for Oregon Affordable Housing to continue to support its database and convening group meetings in Oregon/Portland for at least the next four years. Both of the Minnesota funds are supported by the McKnight Foundation. Together, working with the state finance agency, they have launched the Minnesota Preservation Plus Team. This team has developed a new five-year work plan to continue implementing preservation work, recommitting to preservation as an important effort to do in partnership among the two funds and the state agency. They have recognized that working together is simply a “way of doing business.”

Lessons Learned

Although this new funding, along with the MacArthur Foundation funding, has been critical for these grantees’ work, there are steps that others who are committed to preservation but lack such funding can explore:

- *Building data systems.* State housing finance agencies or other organizations with dedicated funding could explore creating both inventory data systems that catalogue subsidized properties in the state, or use compliance data entered into state systems by owners to develop risk projections.
- *Developing a narrative to support preservation.* With data in hand, champions for preservation can write narratives that build an understanding of the importance of preservation in their locales. Narratives can be tailored for particular audiences, such as by highlighting at-risk properties in a given state legislator’s district.
- *Forming inter-organizational groups.* Launching such a group could begin by identifying a person or organization that could regularly set relevant agendas and convene high-capacity actors working toward preservation.
- *Using the QAP to prioritize preservation.* States (and other sub-allocators) can prioritize preservation through either a set-aside in their QAP or a point system similar to the one used in Minnesota. The balance Minnesota Housing has struck between the burden placed on developers to demonstrate property risk and rewarding points toward allocations may also serve as a promising model for other states.
- *Increasing the capacity of developers committed to preservation.* This may mean prioritizing nonprofit developers when allocating resources toward technical assistance and professional development.

Conclusions

This chapter presented case studies on four of the seven strategies of the WOO initiative. These cases demonstrate varied approaches to preserving at-risk affordable housing, including through special-purpose vehicles, peer network advocacy, and local partnerships. Four common themes emerged that are relevant for organizations that seek to preserve affordable rental housing through collaborating with either peers with similar roles, as is the case with SAHF, or organizations within a specific geographic reach, as is the case for TPC and the state and local initiatives studied.

- *All three of these cases are based on networks representing several organizations.* Others who wish to emulate this strategy could begin by identifying potential member organizations. Two somewhat contradictory recommendations emerge from the cases. One is to keep these networks small enough to foster frank sharing among members. On the other hand, TPC benefited from having a sufficiently diverse group of experts and perspectives to seed new innovations over time. TPC working groups were also, by design, inclusive of leadership and support staff and as many stakeholders as were interested. Other groups we studied intentionally excluded certain actors, such as owners, from regular membership. Deciding whom to bring together in a network or interagency group depends on the goals for that particular group.
- *It is important to fund the administrative component of an interagency council.* Regardless of the number of organizations represented, these cases demonstrate the importance of investing in staff to convene the group, create the agendas, develop next steps, and corral members to execute them. It is also important to solicit a leader of that backbone organization that has sufficient technical expertise in the area as well as more general convening skills. Preferably, this person would have a reputation from prior work with the policy-makers the group seeks to influence. This person can also help cull member ideas to hone messages so that they are “right-sized” for the intended audience.
- *Having detailed data on the preservation issues in a jurisdiction is essential to informing strategic planning and development of programs by an interagency council.* The case studies also present the benefits of investing in a research and development function of the network, with staff explicitly tasked with time to pool data across member organizations, conduct analyses, and structure pilot programs for members to test. State housing finance agencies or other organizations with dedicated funding could explore creating both inventory data systems that catalogue subsidized properties in the state, or use compliance data entered into state systems by owners to develop risk projections.
- *Finally, in all of the cases, these groups developed a strong narrative to support preservation.* With data in hand, champions for preservation can write narratives that build an understanding of the importance of preservation in their locales. Narratives can be tailored for particular audiences, such as by highlighting at-risk properties in a given state legislator’s district. As mentioned above, the group’s leader can then target these narratives to particular audiences. Having a narrative can also facilitate fundraising to support projects and programs aimed at preservation.

This chapter illustrated the concrete strategies WOO recipients took to preserve subsidized and unsubsidized rental housing. They were largely successful efforts that are likely to sustain activity in the wake of the WOO initiative. The next chapter takes a step back to examine the WOO initiative at large and consider each of the six desired outcomes MacArthur had for WOO.

Outcomes of Window of Opportunity

This chapter considers whether WOO accomplished its goals. We evaluate each of the desired outcomes that MacArthur specified for WOO, which are listed in the rightmost column of Figure 3.2.

To assess whether WOO achieved its goals, we rely primarily on expert opinion, which we obtained through a large set of interviews. From August to November 2014, we interviewed 73 experts plus 10 additional current and former MacArthur Foundation staff and Board members. As shown in Appendix B, these experts included real estate developers, policy advocates, public-sector employees at the federal and state levels, and staff at other foundations that have worked with the MacArthur Foundation. Half of the interviewees (51 percent) worked for organizations that had been funded through the Window of Opportunity initiative. Approximately one-quarter of the interviewees had never worked for an organization that had received MacArthur funding. In brief, we asked each interviewee a set of questions about the preservation of affordable rental housing in the 1990s (the decade leading up to WOO) and then during the years in which had WOO operated to date. For those familiar with MacArthur's preservation activities (not all were), we also asked a series of questions about their perception of the effects of MacArthur's investments on preservation. Details about the interviews and the methods for analyzing their themes are included in Appendix A.

We augmented our interviews with secondary data to the extent that they were available. To understand whether WOO recipients preserved the desired number of affordable rental homes, we use grantee reports aggregated by PolicyMap. To assess funding for preservation, innovative special-purpose vehicles, and total number of units preserved, we draw on the Mission Investors' Exchange Database (Mission Investors Exchange, no date), the national LIHTC database (HUD PD&R, no date-a), and information collected by the National Housing Trust, the Center for Community Change, and the National Council of State Housing Agencies. To track changes to the supply of project-based Section 8 rental homes, we draw on administrative data from HUD.

Our findings are distilled in Table 5.1. Each row of the table is an outcome shown in Figure 3.1, which provides an overview of WOO. We discuss each of these outcomes in the sections that follow. Cells shaded dark green are outcomes we deem to have been achieved. Light green cells indicate outcomes for which there is modest or mixed evidence of partial success, and red-shaded cells are outcomes for which there is little to no evidence of success.

Table 5.1
Outcomes from Window of Opportunity

| Desired Outcome | Was It Achieved? |
|--|------------------|
| 1. Increased standing of large nonprofit preservation owners | Yes |
| 2. New and more financing structures for preservation | Modest yes |
| 3. Policy framework to achieve preservation of 1 million affordable rental homes by 2020 | Modest yes |
| a. Increased resources for preservation | Yes |
| b. New regulations and legislation for preservation | Modest yes |
| c. New federal incentives for preservation | No |
| 4. Greater number of groups involved in preservation | Yes |
| 5. Greater awareness of preservation | Modest yes |
| 6. WOO recipients on track to preserve 300,000 affordable rentals by 2020 | No |

Outcome 1: Increased Standing of Large Nonprofit Owners

The core strategy of WOO was to invest in a set of large nonprofit developers/owners to generate transactional innovations and to build their organizational strength. The hope was that success along these dimensions would allow the organizations to achieve sufficient scale and standing to have the ability to influence policy through practice. MacArthur invested in a total of 30 nonprofit owners over the course of WOO.

To evaluate this outcome, we must answer two different questions. The first is whether large nonprofit owners have better standing post-WOO, and the second is whether WOO contributed to this increase. The answer was “yes” for both questions. Exploration of these questions raised key issues regarding this sector and its future. We consider each in turn.

Large Nonprofit Owners Have Increased Standing Post-WOO

Virtually all experts we asked affirmed that large nonprofit owners had better standing. There was near-universal agreement among those we interviewed that already large (by nonprofit standards) developers/owners of affordable rental housing have grown considerably in size and sophistication since the 1990s. Interviewees told us that large nonprofit owners¹ have become more of an “industry,” with a “higher level of practice,” and who are “really savvy and sophisticated,” have “stronger balance sheets,” and are “more creditworthy.” Within this general point, experts identified six distinct themes.

Increased Organizational Size

Nonprofit real estate developers’ growth in size has been fueled partly by mergers and the acquisition of property for preservation. Those with whom we spoke stressed the importance of these changes with phrases such as “significant consolidation,” “dramatic change,” and “scaling up has become everything.” A typical reply to our question was that large nonprofits are “much more scaled institutions with much more clout and much more financial ability.”

¹ Although the MacArthur Foundation set a minimum portfolio of 1,000 units in its 2002 RFQ for regional preservation leaders, several interviewees mentioned 5,000 units when talking about “large owners.”

Growth in the average size of nonprofit owners is also due to the exit of smaller organizations from preservation. As one interviewee told us:

I think the challenges of asset management, finance, compliance, and regulation have all become significantly greater than they were 20 years ago and it requires you to have a bigger operation with more skill and you have to invest in asset management on top of property management, and it just pushes smaller operations out of the business.

Increased Sophistication

Several experts singled out organizational scale as a precondition for increased sophistication. Size allows for specialization of employee functions, and “the development of data systems and software and things that you couldn’t really do in a small organization.” Another person told us that “bigger companies generally do a better job on asset management.” Size also allows developers to spread fixed costs over a greater number of units, thereby making them more cost-effective:

At 2,000 units the overhead of being an affordable housing owner is overwhelming. You’ve got to hire all these people who do compliance work for you but, you know, that’s the same number of people that you need at 5,000 units, frankly.

Better Access to Credit

Another advantage of a larger organization is its ability to obtain credit at the enterprise-level rather than project-level. With a larger structure, a line of credit from a bank can help to finance, say, predevelopment activities for several projects instead of one, or internal bridge funds can be drawn on for quick acquisition. Interviewees stressed that timing is everything; as one expert noted, “Flexible and nimble and speedy tends to win the day.”

Better Ability to Partner with Resident Service Organizations

Scale allows owner entities to attract partnerships with other entities, such as health care providers, which can entail high start-up costs that need to be offset by serving large numbers of households. Large size also allows for other innovations that arose from networked large organizations, such as HPET, the REIT that is the subject of the case study in Chapter Four.

Changed Business Model

The most frequently cited reason interviewees gave to account for the scaling up within the nonprofit owner industry was a changed business model that shifted from reliance on developer fees, which creates a demand to close deals in order to pay bills, toward cash-flow from properties. As an interviewee told us, “I think they’ve become much clearer about their need to be profitable so that they can continue to grow and serve their mission.” One developer explained that their prior practice of relying on developer fees was not sustainable:

Here we owned a bunch of properties and we were losing money in property management, we were losing money in resident services, and hardly any of our properties did much better than break even. And, you know, that’s just really stupid. I mean, it’s just not a good business model.

Part of that shift toward properties that generate positive cash flow has involved moving away from solely properties funded with LIHTC into different asset classes. Another change is the greater variety in ownership structures: “I think people are playing in a lot more fluid way now than they used to because they used to own everything. . . . I think a lot of groups now work as special limited partners, work in a lot of different ways other than straight out ownership.”

Increased Experience

Finally, several interviewees attributed the scaling up to the simple fact that organizations have accrued more experience. Several called it a “natural evolution” of a relatively young industry—“the more you do something, the better you get.” A financial analyst pointed out that there is “more product” out there to be preserved since first- and second-generation LIHTC deals are reaching the end of their 15-year compliance period.

Experts Expressed Mixed Feelings About the Scaling Up of Large Nonprofit Owners

The scaling up of nonprofit owners, whether through conglomeration or just growth of portfolios, was not universally hailed as progress. The MacArthur Foundation applied clear eligibility criteria that only large nonprofit preservation owners qualified for borrowing WOO funds, but interviewees wrestled with the question of who is the ideal organization to preserve affordable rental housing. In general, experts we spoke with described a changing nonprofit developer/owner industry that is shedding small CDCs and moving away from a history of tenant-based advocacy in favor of fewer, larger nonprofits with greater geographic spread.

Many experts both praised and cautioned against this trend toward “going big,” noting the trade-offs between big versus small size. Big owners have economies of scale, better access to large infusions of capital, and the ability to host the more-specialized functions and departments and thereby be “more professional” and standardized. Yet small CDCs with missions to work in specified neighborhoods have potentially deeper understanding of local contingencies and a willingness to customize their approach to a given rental property. As one interviewee told us, “The old community problems are local and sometimes the only way to fix it is with a local fix. You can’t really standardize some of these things.”

Several interviewees suggested there was, in fact, no tension between big versus small owners, since they can complement one another as partners rather than compete: The big owner acquires and operates the housing, and the small partner helps secure local permissions and provides social services. As one person put it, the smaller local organization is in “some ways better at . . . the hand-to-hand combat that some of these preservation deals have to go through at the local political level.” But many interviewees wrestled with the question of which aspects of housing preservation can and cannot be scaled well, and did not settle on neat divisions.

This debate touches on a generational shift in focus from affordable rental housing’s original roots in tenants’ rights and CDCs—a movement that was grassroots and local—to a more business-friendly focus on efficient providers of affordable housing at scale. At least five interviewees talked about the legacy of local community development as having created “too many CDCs” and “irresponsible, distressed mom and pops.” One interviewee said that the “the community development movement itself has always struggled with scale and what would be the [right] structure of scale. Their answer was to have big intermediaries [such as Local Initiatives Support Corporation or NeighborWorks] helping to support local nonprofits.”

A related dilemma that surfaced in conversations about the nonprofit owners concerns the trade-off between serving tenants that have the greatest needs—which some referred to as “maintaining mission”—and being a financially healthy organization:

In the nonprofit sector, people have really come from mission and so they want to house the lowest-income people they can reach, and it’s really painful to have to move up the income stream because you’re moving away from mission for the financial benefits. And it’s true; it does move you away from mission, and yet you just can’t grow without that rebalancing.

Interviewees expressed concern that nonprofits that focus primarily on mission are too reliant on grants for funding and that serving the lowest-income families will prevent the owners from being sustainable. One person described small nonprofits as run by “great people” but decried that these organizations, by placing top priority on mission, wind up in complex preservation transactions that default or are mismanaged “either through the lack of asset management and the lack of understanding . . . the financial wherewithal of all of these things.” A developer told us that the mission mindset, especially among larger nonprofits, has changed in favor of pragmatic appreciation of the necessity of a maintaining a portfolio with a positive cash flow.

A number of people resolved this tension between mission and financial health by advocating for preserving rental housing that includes the lowest-income households but also contains rentals targeted to a higher-income bracket. Politically, these people argued, the provision of affordable housing that serves a broader swath of incomes is more attractive than, say, targeting all resources for households below 30 percent of the area median income. Serving a larger spectrum of households, from the very low- all the way up to moderate-income, could increase the overall set of dollars for affordable housing by broadening the constituency and the political attractiveness of the subsidy. As one interviewee put it,

There [are] a lot of folks who argue it is a shrinking pie and every dollar of the pie more than ever has to go to the neediest. I am sympathetic to that argument, but I think if we become more relevant [by building moderate-income housing], we could grow the whole system with more of everything.

In defense of serving a broader set of incomes, another interviewee told us: “I [am] coming to the conclusion that [providing] these very limited resources to a group of people [within a narrow band of income eligibility] is a very tough thing to sustain over time.” Another person suggested that housing has gotten so unaffordable that even the working and middle class are deserving of aid:

You can go up to 80 to 100 percent of median income and feel like you’re helping people that really don’t have many options. So some of this naturally affordable [preservation activity] is because the need has gotten so much broader.

WOO PRIs Enabled Large Nonprofit Organizations to Build Capacity, Alter Business Models, or Otherwise Expand

Interviewees credited MacArthur as a catalyst that helped brand a set of nonprofit developers as preservation owners and, through PRIs, helped them shift into more financially sustainable practices with greater clout and policy influence. Notably, only one of the 30 owners provided

a PRI defaulted; all others have fulfilled their payment requirements as of the date of this writing. (Many PRIs become due by 2020.)

Our evidence from interviews indicates that PRIs supported borrowers to strengthen and expand their organization. Most of MacArthur's WOO investments in the 30 large non-profit multifamily rental property owners took the form of PRIs, although several also received grants for capacity building. Those whom we interviewed that received a PRI reported that it enabled them to undertake and modify their approach regarding a wide variety of activities:

- adding preservation to the overall portfolio
- creating and funding new staff positions explicitly dedicated to preservation
- building capacity by hiring staff or investing in infrastructure such as databases, or upgrading an asset management system
- deploying working capital to fund pre-development activities such as buying property, paying attorneys, conducting capital needs assessments, or bridging acquisition costs until receipt of permanent financing which leads to time savings
- moving into a new geographic market, especially regions with low levels of existing development capacity
- improving business practices, such as increasing reserves to a specified number of months of operating expenses and using other means “to sock away [an owner's] own capital” to maintain a “better balance sheet”
- speeding a strategy shift from exclusively doing new construction to incorporating preservation
- buying out a co-general partner more often, so as to become the sole partner of a property the owner intends to preserve
- acquiring more unsubsidized affordable rental housing to be held for ten years and then placed under subsidy
- attracting additional capital, such as lines of credit from banks or other philanthropic dollars, more often and more successfully
- shifting away from relying on developer fees to pay for asset management and resident service functions, paying for those functions with cash flow from properties.

Interviewees stressed that *patient* capital from the MacArthur Foundation was critical. The PRIs typically had low interest rates of 1–3 percent and seven- to ten-year terms—lower interest rates and longer terms than were available from other sources such as CDFIs. Thus the PRIs were the “best money” borrowers could have. One borrower told us,

It's almost impossible to move when you have to go ask some intermediary lender for, you know, like \$100,000 and that would get you through three months and then you get another \$100,000 three months later. I mean, really, the kind of money that MacArthur is putting out there is for sophisticated groups, the kind of money that we really need.

The intermediate objective of the PRIs was to build better-capitalized, more-durable, more-scaled nonprofit organizations that can, in turn, preserve more units. Interviewees, whether they were MacArthur Foundation loan recipients or not, generally concurred that the intermediate objective was achieved. One interviewee told us that, as of 2000, when these PRIs were first awarded, some nonprofit groups were just starting to emerge as leaders of the preser-

vation pack, thanks to states' incentives for LIHTC preservation dating back to the 1990s. The PRIs were intended to enhance their growing sophistication. As another finance expert put it, "It helped boost a whole bunch of these housing developers up to the next level of scale and financial sustainability." The PRIs were also intended to increase the competitive advantage of nonprofits relative to for-profits, which own approximately 85 percent of the affordable housing stock (Joint Center for Housing Studies, no date).

MacArthur also signaled that size of the nonprofit developer/owner mattered by setting a minimum size of 1,000 or more units within an owner's portfolio as a condition of receiving a PRI through its RFQ for nonprofit regional preservation leaders. As one owner put it, "they essentially chose a new sector, and they kind of helped us brand it." One interviewee described larger nonprofits in 2000 as in a "stage of adolescence" and poised to grow, while CDCs and small nonprofits were in a period of contraction and consolidation. One interviewee said that he "credited MacArthur, at least in part, with a shift in the focus of the intermediaries and others from small-scale neighborhood and community organizations to volume producers." As another expert explained, it was as if MacArthur said "We are not trying to be everything to everyone." Others dated the consolidation of smaller nonprofits and the emergence of larger regional or multiscale nonprofits back to years prior to WOO, but reported that MacArthur accelerated the shift. Regardless of what instigated it, there was wide agreement that the majority of preservation activity was now being done by sizable organizations with a large geographic footprint and that WOO played a key role in this development within the nonprofit developers/owners sector.

WOO Helped Build a "Cadre" of Nonprofit Owner Leaders That Are Connected to One Another to Collectively Influence Preservation Policy

In trying to build up the organizational strength and financial health of a set of nonprofit developers/owners, MacArthur's ultimate goal was to influence state and federal preservation policy. Grant-making to peer networks of nonprofit owners such as the Housing Partnership Network, Strength Matters, and SAHF was an avenue by which MacArthur hoped owners could influence policy through large nonprofit owners' practices. Interviewees felt that MacArthur's investment in both individual nonprofit developer/owner organizations and in owner networks were mutually reinforcing and had the desired effect of influencing at least state preservation policy. Peer networks were the primary mechanism by which nonprofit developers/owners could influence policy, by translating innovations that arose within the context of an individual nonprofit owner's preservation practices into broader policy change.

The MacArthur Foundation's investments through WOO in convenings—whether they were peer networks, conferences, working groups, or local partnerships like the Cook County Preservation Compact—provided a structure for an otherwise fragmented group of preservationists to propagate changes to their practice and to collectively advocate for change in laws and regulations. One grantee told us that, by funding convenings, MacArthur sent the message that "This [preservation] is important and we are going to specifically target this and we are going to bring people together on a regular basis and we are going to talk about those practices and we are going to learn from each other's experiences."

Interviewees reported that the peer exchanges were largely successful in cross-pollinating ideas and sparking new innovative ventures. For example, the peer exchange produced such collaborations as HPET, the REIT described in Chapter Four. The networks pooled together transactional knowledge, lessons learned, and innovations that they and advocacy organiza-

tions then used to advocate for policy change. Although the competition between nonprofits for scarce housing preservation resources works against at least some types of collaboration, interviewees had the sense that nonprofit owners are better networked than their for-profit counterparts. As one for-profit developer told us: “I would venture that a lot of affordable developers don’t even talk to each other. We just do our own thing and don’t share best practices.” By contrast, nonprofit owners reported being in frequent contact with their peers, usually through networks:

I think that [WOO] brought people together in maybe a new way or at least it could have accelerated the coming together of nonprofits who may in the past have mostly been focused on their own deals. And not out of a competitive instinct but just simply because they were doing their own thing, and I don’t think it was really regarded as a sector, you know, back in the ’80s or even until the mid-90s. . . . You know that was pretty new.

Interviewees told us that WOO catalyzed nonprofit industry standardization, which can potentially ease moving to scale. As one interviewee noted, “there is an increasing amount of intent at least to standardize processes and other tools of business” as a means to become more efficient and to access more capital. Importantly, networks can serve this information-sharing, standard-setting function. As discussed in Chapter Four, pooling transactional knowledge also helped groups of owners advocate for change from regulators.

Frankly, the field is having a much more effective interaction with HUD because it is able to articulate the need for changes in the way HUD does things. [The claim] is based . . . on very practical examples of, if you just did this one thing, this is what I could be doing more effectively across 10,000 units of housing.

As the next question will address, WOO recipients were successful via peer networks in advocating for some administrative changes within HUD and instrumental in QAP-related changes for LIHTC allocations to preservation. The case study of SAHF in Chapter Four describes in detail how a peer network helped nonprofit developers/owners have policy impact. But ultimately, they did not achieve national regulatory or legislative changes nor tax incentives for preservation, as we discuss for Outcome 6.

Outcome 2: New and More Financing Structures for Preservation

An auxiliary strategy within WOO to the central one of investing in large nonprofit preservation owners was to provide seed funds to special-purpose vehicles, such as loan funds, to increase the amount and variety of capital from other investors for preservation transactions. The MacArthur Foundation loaned \$76.2 million to 20 organizations for special-purpose vehicles.

Based on our review of MacArthur’s grant-making, our scan of housing trust funds and loans, and our interviews, we found that WOO had mixed success regarding this outcome. A notable achievement is that virtually all 20 organizations have met performance benchmarks within the terms of their loans from the MacArthur Foundation. (Some, like the Cook County Preservation Fund, fell short of expectations.) Many interviewees noted the unusually creative and savvy financial skills that the MacArthur Foundation brought to bear in helping to inno-

vate special-purpose vehicles. The initiative did facilitate the creation of new and innovative financing structures. More capital is available for preservation through vehicles such as predevelopment loans and tax credits through the LIHTC program. However, none of the new vehicles has become a common industry tool (with the possible exception of predevelopment funds), and there are few new forms of permanent funds for preservation. We discuss five activities involving special-purpose vehicles below.

Acquisition and Predevelopment Funds

The most common change in financing structure we found was the proliferation of acquisition and predevelopment funds for affordable housing developers. Several large nonprofit developers with whom we spoke indicated that predevelopment funding is no longer in as short supply, although permanent sources of capital are still scarce. As evidence of the proliferation of these types of funds, we identified 19 loan funds,² of which MacArthur had co-funded 12.

The best-known and largest of the predevelopment funds is the \$300 million New York City Acquisition Fund, in which MacArthur invested \$5 million. That fund started in 2006 and has since closed on a total of \$249 million of bridge loans providing developers up to two years of funding for acquisition of land or buildings, predevelopment, and moderate rehabilitation of multifamily rental properties. As of first quarter 2015, 58 percent of the fund's lending has been for preservation, comprising \$143 million of preservation lending and 3,113 units. Several of the 18 funds are part of the State and Local Housing Preservation Leaders initiative within WOO, where several states have used PRIs to increase their revolving loan funds, including, for example, a \$1 million PRI that is still in use for a rural lending fund to preserve Section 515 USDA units. Another, albeit unusual, example is a fund established by a WOO preservation owner borrower whose board elected to create an internally funded \$50 million affordable housing preservation fund that mimics the structure of the \$3 million PRI it had received from MacArthur.

Energy Efficiency Loan Funds

Additional special-purpose loan funds include energy efficiency loan funds, such as the Energy Savers program run by a CIC that finances retrofits for multifamily housing in Illinois (discussed in greater detail in Chapter Four). The MacArthur Foundation also funded the Pennsylvania Housing Finance Agency to create its "Preservation Through Smart Rehab" program, which finances the rehabilitation of existing affordable properties in order to reduce operating costs and make the long-term affordability of these properties more viable.

Transit-Oriented Funds

The foundation also financed a transit-oriented development fund in Denver that provides capital to purchase sites where future transit stations will be opened. This fund allows borrowers to hold the site for up to five years. Such "patient capital" was traditionally only reserved for

² These funds are the Golden State Acquisition Fund; Prudential Preservation Loan Fund (WOO); Preservation Revolving Loan Fund (WOO; administered by the Housing Assistance Council); Bay Area Multifamily Fund; Los Angeles County Housing Innovation Fund; New Generation Fund (Los Angeles); NYCRS Multifamily Housing Loans; Ohio Preservation Loan Fund (WOO); D.C. Preservation Loan Fund; Oregon Housing Acquisition Fund (WOO); Maryland Preservation Loan Fund (WOO); Hartford Preservation Loan Fund; Southland Community Development Loan Fund (Chicago); Massachusetts Preservation Loan Fund (WOO); Vermont Loan Fund (WOO); Family Housing Fund (Minneapolis; WOO); Preservation Compact Fund (WOO); and Ohio Preservation Loan Fund (WOO through the Ohio Compact).

private-sector actors who could guarantee high financial returns and had the balance sheets to provide adequate security against potential losses.

Financial Guarantees for Preservation

The MacArthur Foundation provided a \$20 million PRI for another innovation in financing—a guarantee that the National Affordable Housing Trust spread over three different tax credit funds to reduce the perceived risk for subordinate investors in LIHTC deals who are concerned about “Section 8 overhang.”³ This PRI is an example of MacArthur using philanthropic funds to give investors (in this case, LIHTC investors) greater confidence as well as to reduce transaction costs and thus build greater willingness to invest in preservation transactions. The Mission Investors Database, however, indicates that guarantees are still rare on the part of foundations, although some are increasing their use; the database contains 17 guarantees made by mission investors since 2010 compared with, for example, 370 PRIs by foundations to private-sector entities.⁴

Real Estate Investment Trust

A final innovation is the development by WOO grantees of a first-of-its-kind REIT called the Housing Partnership Equity Trust. This special-purpose vehicle is the subject of a case study in Chapter Four. Community Development Trust is also a REIT, but its property management model appears different from HPET, and is the only other preservation-related REIT we could identify.

Outcome 3: Policy Framework in Place to Encourage the Preservation of 1,000,000 Affordable Rentals by 2020

As described in Chapter Three, the MacArthur Foundation’s most ambitious policy goal was to achieve a policy framework—resources, regulations and legislation, and incentives—that would support the preservation of 1 million affordable rental homes by 2020. While all seven strategies of WOO (listed in Figure 3.1) were intended to help achieve this policy framework, the most directly related strategy was the general operations grants that the MacArthur Foundation made to national advocacy organizations to work at state and federal levels to secure adoption of preservation policies.

The two most notable achievements within this outcome were to help increase the share of LIHTC funding for preservation and some statutory and administrative changes within HUD that promote preservation. There has also been substantial state-level activity to promote preservation as encouraged by the State and Local Housing Preservation Leaders initiative, as we describe below.

³ Section 8 overhang refers to the potential for revenue loss for a property if Section 8 rents are not recognized in localities where rent levels paid through Section 8 are substantially higher than the maximum rent levels allowed through the LIHTC.

⁴ The Mission Investors’ Exchange Database relies on self-reported data uploaded by its members. The Mission Investors Exchange includes at least 215 foundations that work in at least the United States, as well as additional foundations working outside the United States (Mission Investors’ Exchange, no date).

However, the biggest national policy ambitions of WOO have not been realized. Despite significant effort, there are no new federal laws, tax incentives, funding streams, or regulations that promote preservation. As a consequence, the changes that have occurred are unlikely to result in the preservation of 1 million affordable rental housing units by 2020. According to data from the National Housing Trust and based on annual preservation rates in 2010–2012, a simple straight-line projection indicates that approximately 400,000 affordable rental units will be preserved through the LIHTC program by 2020, which is the primary public funding source for preservation activities.

Outcome 3a: Increased Resources for Preservation

Data indicate that more resources were made available for preservation in the form of LIHTC during the WOO years compared to the decade leading up to the initiative. Interviewees credited WOO as being instrumental to the increase. Beyond LIHTC, experts disagreed whether there was more funding or a greater number of funding sources available for preservation. We first describe the landscape of funding sources for preservation and then examine changes to LIHTC.

According to interviewees, the most common sources of funds for preservation are LIHTC equity investments, followed by volume cap tax-exempt bonds, followed by Community Reinvestment Act–motivated lending. Experts generally agreed, and the data confirms, that the share of LIHTC investments allocated to preservation were higher in the 2000s than they were in the 1990s. We describe changes to the LIHTC allocations below. Beyond those changes, interviewees did not agree about whether the overall *amount* of funding available for preservation has increased, since the increased amount of LIHTC for preservation has been offset in at least some regions by reduction in other funding sources. Regional differences in levels of funding colored people’s answers, with some reporting states providing more and some less of soft funding sources, such as HUD’s HOME Investment Partnerships Program and Community Development Block Grant program and state housing trust funds. Many reported no change in funding sources, but fewer dollars within those sources.

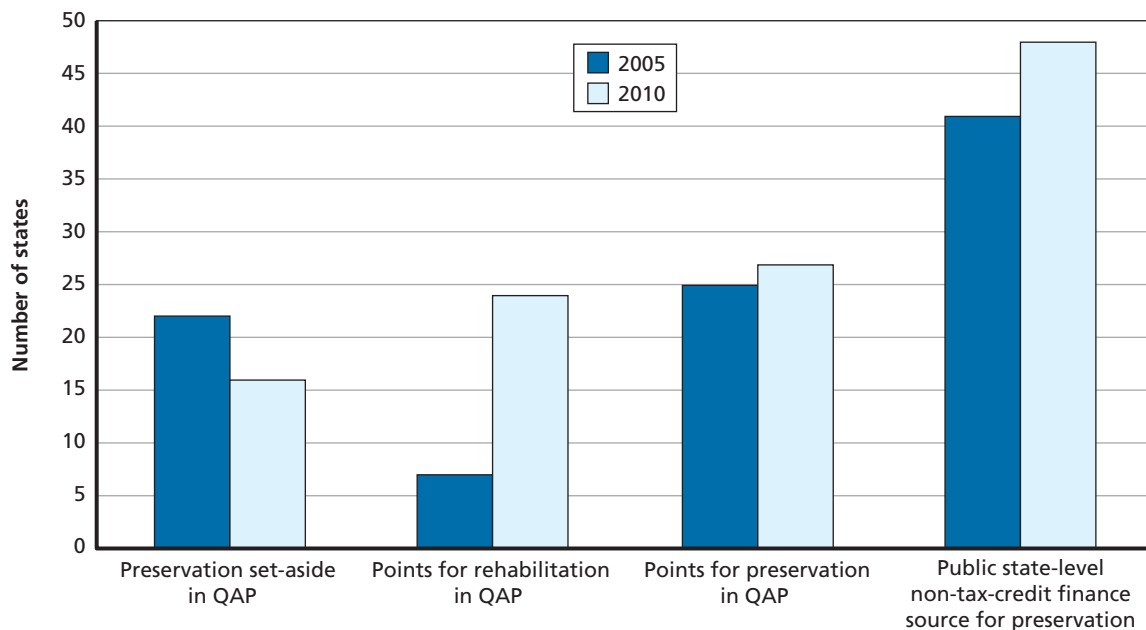
The uncertainty of funding to increase the preservation of affordable rental housing throughout the WOO years (Schwartz, 2015; National Housing Law Project, 2003) likely influenced the perspective of respondents. There was broad consensus that permanent sources of funds for preservation remain too scarce. In the absence of sufficient funds, preservation owners are being more creative about looking for alternative sources of funds for affordable housing, whether through philanthropic dollars or pay-for-performance pilots, energy efficiency upgrades, or health care partnerships, such as are described in Outcome 2. Among those who commented on rural funds, there was a consensus that there are fewer rural preservation funds now than in the 1990s.

The most concrete example of increased resources for preservation is the enlarged share of LIHTC awards that state housing finance agencies allocate to preservation through the states’ QAPs. The QAP stipulates a state’s priorities for the competitive allocation of LIHTC awards. Overall, the number of states that had a direct set-aside of 9 percent credits for preservation increased from three in 1995 to a high of 22 in 2005. The number of states with set-asides fell by 2010 to 16 states, but this does not necessarily suggest that the support for preservation decreased. As we see in Figure 5.1, the overall number of preservation set-asides fell between 2005 and 2010, which may be due in part to the availability of other resources for preservation. For example, 131 of the 203 housing trust funds that we were able to identify had funds

that could be used for preservation as of 2011.⁵ The decline in preservation set-asides may also reflect the increased frequency of preservation such that states need no longer protect as many resources for it. Finally, this could reflect a shift in how agencies target resources for preservation. Municipalities can change QAPs to award developers additional points in their LIHTC application if the application is for a preservation transaction. Another way to prioritize preservation is to award additional points if the transaction involves the rehabilitation of an existing property because all preservation transactions count as rehabilitation. As shown in Figure 5.1, in the same years that set-asides decreased, the number of states that awarded points in their QAPs for rehabilitation or preservation increased.

While we do not have data for tax credit awards going back to the 1990s, as can be seen in Figure 5.2, the level of 9 percent tax credit investments devoted to preservation increased between 2003 (the year that the National Housing Trust first catalogued preservation investments and activity) and 2010. The overall share of LIHTC investments devoted to preservation decreased from 2008 to 2010 and then peaked in 2011. There are many factors that could explain this dip between 2008 and 2010, not the least of which is that the odds of an owner trying to leave a subsidy program during this time were likely less due to the recession, thereby lowering demand for preservation transactions. The change in QAP priorities toward preservation and the increase in the share of credits awarded to preservation are significant achievements, because LIHTC is the primary source of funding for preservation.

Figure 5.1
Number of States with Preferences for Preservation

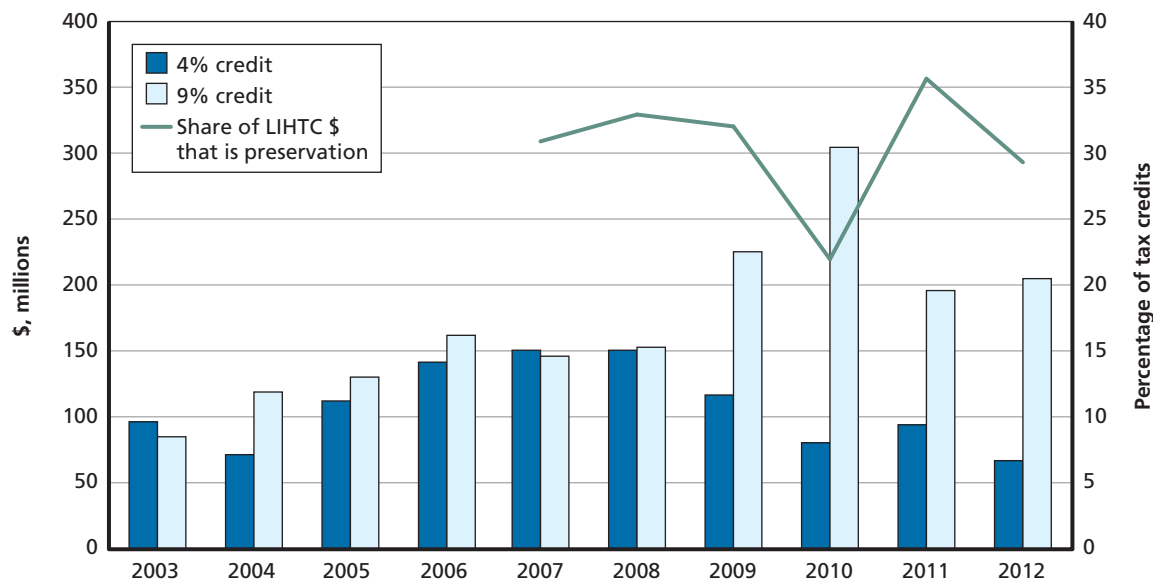


SOURCES: Data from the National Housing Trust, the National LIHTC database (HUD PD&R, no date-a), and the Center for Community Change.

RAND RR1444-5.1

⁵ Based on data from Housing the Trust Fund Project at the Center for Community Change.

Figure 5.2
Dollar and Share of Tax Credit Investments in Preservation



SOURCE: Data from the National Housing Trust and the National LIHTC database (HUD PD&R, no date-a).

RAND RR1444-5.2

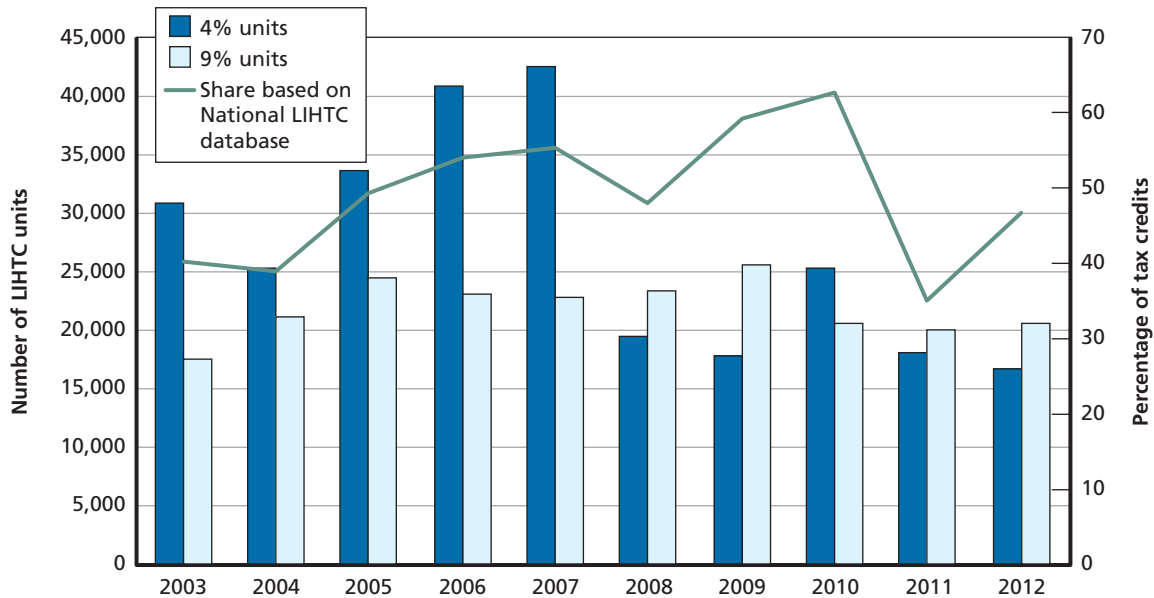
When we look at the number of units preserved (rather than dollars allocated) with both 4 and 9 percent credits, we can see that the overall share of units that were preserved (as opposed to newly constructed) with equity from LIHTC increased from 2003 to 2007, dipped in 2008, then increased to a new high of 60 percent in 2010. Despite changes in set-asides and points across states, preservation units still accounted for roughly 47 percent of all tax credit units placed in service in 2012. When combined, the data in Figures 5.2 and 5.3 suggest that preservation transactions on the whole tend to have a lower cost per unit than other uses of the LIHTC.

The change in LIHTC allocations was the most frequently mentioned example of WOO-aided preservation policy change among interviewees. As one stated, “[The fact that] preservation over the last ten years has become a priority in so many state [QAPs] would be the biggest impact [of WOO].” Another person told us “I mean I think it would be not unfair to characterize the whole shift of how rental housing finance agencies treat preservation [through QAPs] to MacArthur’s Window of Opportunity, certainly over the last seven or eight years.” This change in QAPs was largely, but not exclusively, credited to the WOO-grantee National Housing Trust’s work. In the words of one interviewee,

It’s a clear cause and effect that the support MacArthur has given to just the National Housing Trust and Michael [Bodaken] has allowed him to build an infrastructure of data and analysis and the ability to be seen as the top group with knowledge and information that is unquestioned as far as its accuracy and validity. He is at the table at every preservation discussion at the national and many state levels.

Beyond just the National Housing Trust, many interviewees who were familiar with WOO credited the MacArthur Foundation for funding high-impact national advocacy orga-

Figure 5.3
Number and Share of LIHTC Units That Were Preservation Units



SOURCE: Data from the National Housing Trust and the National LIHTC database (HUD PD&R, no date-a).

RAND RR1444-5.3

nizations. As one person put it, MacArthur selected “politically astute organizations” and “essentially gave them the running room, the breathing room to be able to use that astuteness to support this mission.” Experts said that, in the realm of policy, MacArthur “picked the right folks to give the money to.” These dollars were critical to keep some of these groups in business at a time when philanthropic dollars for rental housing were especially scarce. Several organizations talked about their struggle to survive in the early 2000s: “I’m sure I speak for others when I say, ‘I don’t know what I would have done if MacArthur had not come in to fill that breach.’” The announced ten-year time frame for WOO was another way in which the foundation gave policy organizations “running room” and the ability to get traction in making the case for preservation.

Outcome 3b: Regulations and Legislation for Preservation

Our evaluation of this outcome suggests that WOO had modest success in policy change, but not in establishing regulations and legislation for preservation. We have already documented the LIHTC-related policy changes at the state level, and that those changes were due in part to WOO activities. However, change at the federal level was the ultimate goal, since that would establish a uniform policy approach nationwide and trigger even more action at the state level to augment federal priorities. Unfortunately, despite persistent efforts by WOO grantees, there was no new federal legislation or tax code changes to promote preservation.

WOO Federal Policy Achievements

Success at the federal level often requires working closely with the agencies that have the authority to make desired reforms. Here, WOO had a mixed record. A number of key HUD leaders were recipients of funds through WOO, and their presence undoubtedly had a role in

preservation-related changes at the agency. Interviewees credited HUD with substantial, if “incremental,” progress under the Obama administration to make preservation easier.

Whereas, in the words of one interviewee, HUD was a “wasteland” on preservation in prior administrations, interviewees generally felt that top Obama administration officials within HUD had a “real understanding of affordable housing.” Former HUD officials we interviewed confirmed that preservation was, indeed, a “big focus” during WOO years. Despite progress, housing practitioners still described HUD processes as “painful” (regardless of the particular HUD program office in question), processing transactions as slow compared with the private sector, and program offices as siloed and sometimes prone to reaching internally contradictory regulatory decisions regarding a single preservation transaction. Yet interviewees praised a number of HUD actions, including

- consolidating programs
- revamping internal data systems to track subsidized units
- allowing for long-term Section 8 contracts of 20 years
- making Section 8 a “a key part of every budget request”
- altering HUD practice to greatly reduce terminations of project-based Section 8 contracts for substandard conditions at foreclosure
- working more effectively with the U.S. Department of Treasury, including making it possible to use LIHTC with HUD-assisted properties
- providing new guidance to ease use of HUD’s available preservation tools
- “dipping their toe into the unsubsidized stock based via the FHA Risk-Share Program”
- allowing the transfer of Section 8 subsidy from one building to another so as to preserve the subsidy, if not the building
- being more flexible.

Chapter Four describes the means by which the MacArthur-funded peer network of non-profit owners in SAHF effectively engaged HUD regarding administrative reforms.

While interviewees gave Obama administration HUD appointees credit for substantial progress, they were unanimous that it is more difficult to work with USDA’s Rural Development than it was previously. Staff levels at Rural Development have been severely cut, the structure is decentralized, and Rural Development lacks “effective leadership.” One developer told us it takes up to 18 months to execute a sale from a willing seller to a willing buyer. With LIHTC subsidy in the deal to finance rehabilitation and the ensuing LIHTC deadlines, “We’re always down to the line, running out of time and freaking out about our construction schedule because it takes so long.”

While there were some “wins” at the federal level within HUD in particular, interviewees expressed that the federal policymaking regarding preservation was muted due to the financial crisis of the Great Recession. For example, several WOO-grantees persistently advocated for preservation policies that were in a bill called the Housing Preservation and Tenant Protection Act, sponsored by Barney Frank, that had been repeatedly introduced over several years but died in the House Financial Services Committee (most recently in 2010). One interviewee told us that preservation was simply not a high enough priority in the House Financial Services Committee or Senate Banking Committee in light of the Great Recession and a lack of bipartisan interest in rental housing.

In lieu of legislative wins, numerous interviewees in and out of government credited WOO recipients with helping to protect threatened resources for federally assisted rental housing during the Great Recession. One way MacArthur did this was through sponsoring national conferences in 2003, 2007, and 2009, as well as its funding national advocacy organizations to try to keep rental housing in general and preservation specifically on the policy radar when many recession-related concerns threatened to crowd it out. Interviewees mentioned a second way advocacy work by WOO recipients to secure, for example, American Recovery and Reinvestment Act stimulus dollars to fill a \$2 billion gap in HUD's budget for the renewal of Section 8 contracts. One interviewee summarized this policy work as follows:

They did a really good defensive maneuver protecting and keeping the idea of rental housing and preservation on the agenda and balanced it. It was a defensive maneuver, and there was no one else. It's pretty hard to ask any foundation, no matter how big they are, to really change the tide. I think that's a pretty big ask, so within that context of what's realistic and possible, I think they did about as well as one could do.

WOO State Policy Achievements

With the expiration of most federally administered vehicles for preservation, such as the Low Income Housing Preservation and Resident Homeownership Act, experts concurred that preservation had largely devolved to the state level, where LIHTC is administered. Except for Section 8, the administration of LIHTCs, volume cap bonds, Section 202, and Section 811 has been “pushed down” to the states. Interviewees used phrases such as “getting out of the housing business” when talking about the federal government. As we will discuss in Chapter Six, the reduction in the relatively small role the federal government plays in directly administering subsidized affordable rental housing was a serious concern of experts in terms of the future of affordable housing preservation.

In response to this devolution, in 2009, the MacArthur Foundation added its State and Local Housing Preservation Leaders initiative upon hearing from WOO preservation owners that states were the particular sticking point for advancing preservation. Given the central role played by state and local government—especially housing finance agencies—in preservation, one interviewee told us that this particular strategy was the foundation's “best bet” to change the field of preservation, as it “funded the public funders.” As we discuss in the case study of the State and Local Housing Preservation Leaders initiative in Chapter Four, state grantees reported that the grants and loans helped them buttress state preservation activity and, in several instances, secure new state dollars for preservation.

Several people whom we interviewed also claimed that by issuing an RFQ for the State and Local Housing Preservation Leaders initiative (as opposed to inviting select entities to submit proposals or directly issuing funding to preselected recipients), the foundation instigated more activity across states than it ultimately funded. Approximately 70 to 80 applicants submitted initial letters of interest. Due to the competitive solicitation process, the RFQ may have spurred innovation that would not have otherwise occurred. Coming as it did at the time of the Great Recession, one grantee told us that the funding gave a state housing agency “the impetus to focus on preservation as opposed to something else. It also just focused attention on preservation and I just do not think that would have happened if MacArthur hadn't pushed on this issue.”

Outcome 3c: Incentives for Preservation

When it formulated the objective to put in place a policy framework, the MacArthur Foundation envisioned federal and/or state and local tax code changes, such as changes in property tax classifications, income tax credits for charitable donations of property, exit tax relief through reform of capital gains/depreciation rules, or a targeted tax credit. By in large, these changes have not materialized. The only tax code change of which we are aware that directly pertains to preservation is in Cook County, where TPC's successful partnership with the Assessor's Office affected a reduction in the property tax assessment on multifamily property and led an information campaign in Illinois to inform property owners about how to appeal their property's valuation. In addition, TPC helped the Illinois Housing Development Authority create a proposal for a tax freeze for buyers of vacant 1–6-unit properties, which IHDA used to formulate legislation that passed in 2014. No interviewees mentioned incentives when asked about the impacts of WOO, and we did not identify any new ones in our policy scan.

Outcome 4: Greater Number of Groups Involved in Preservation

A key goal of the WOO initiative was to increase the number of owners and funders of affordable housing preservation. To assess the degree of success in pursuing this goal, we considered two questions. First, was the affordable housing preservation sector larger after WOO's 14 years of existence than it was before WOO began in 2000? If yes, the second question was whether WOO contributed to this growth. As was the case for the other outcomes, our evaluation relied on feedback from our many interviews with experts inside and outside the sector. We learned that there has been growth in the preservation sector and that WOO did influence it. However, experts raised questions about the import of the growth and whether some potential had not been realized. We summarize these points below.

There Are More Developers Involved in Preservation Now Than in the 1990s

According to our interviewees, preservation has become a “standard play” within large owners' portfolios, including those of both nonprofits and for-profits. In that sense, the field has broadened beyond the former set of “very specialized players,” as more developers pursue preservation tax credit awards. One developer explained her shift into preservation in this way: “It's a good type of real estate to own and manage; it gives us diversity. It puts us in markets that are strong.” The sense among our interviewees was that the number of for-profits and nonprofits involved in preservation has grown substantially.

As owners' housing stock ages, they are increasingly recapitalizing their own properties. As one developer put it, “We are not only looking at buying somebody else's [property], but we are looking at how do we protect our own?” Partly in response to the high number of LIHTC properties reaching the end of their 15-year compliance period, there has been an increase in the number of developers who remain in the partnership and preserve the property. “That has been a very big growth area in the development world over the last 15 years.” A typical sentiment was “Many more nonprofits and for-profits are investing more of their resources, their time, and developing deals that are preservation-oriented.” Interviewees credited WOO with at least part of this change. WOO encouraged large nonprofit owners to enter preservation through its regional preservation leaders RFQ. WOO also created a brand for mission-oriented

preservation owners through its investments in peer networks and individual owner entities. We discuss these two themes in our discussion of Outcome 1, above.

Some interviewees warned of a new class of predatory investors who are entering the preservation sector by “parking capital” in project-based Section 8 properties. According to interviewees, these “nontraditional investors” have bought up buildings in which 100 percent of the units are federally assisted to obtain the steady income stream with the intention of selling the property in three to five years for a profit “before the roof caves in,” without recapitalizing the property. Interviewees worry that such buyers, with their “short-sighted dumb money,” are doing a “disservice” to the subsidized inventory, leaving a mess for future preservation-minded owners to clean up.

Some Thought WOO’s Impact Was Limited Because No Leading “Champion” for Preservation Emerged as the Industry Grew

Given the focus in WOO on raising the profile of nonprofit developers/owners who could serve as ambassadors for preservation by influencing policy through their practices, we asked preservation experts whom they thought were leading voices that spoke on behalf of the preservation community. Such a person or entity might create consensus, communicate priorities, and advocate for policies to make preservation easier and more effective. We found that a new clear leadership “hierarchy” did not emerge as the sector grew; some interviewees were unconvinced that new leaders had emerged as the sector expanded.

No clear consensus emerged from experts about the leading champions for preservation and whether there are more or fewer than in the 1990s. Interviewees’ answers were all over the board, with the slightly emergent theme of “I don’t think it’s changed.” Interviewees felt that, at the national level, the champions in the 1990s are still the same today, with maybe “a few more at the margin,” but that these champions are “more mature” and have “more ammunition.” If anything, with the retirement of long-time allies such as Representative Barney Frank, there has been a net loss of legislative champions at the federal level.

As evidence of lack of consensus, interviewees collectively named a total of 51 different champions, of which none was mentioned by a majority of interviewees. The champions included advocacy organizations (e.g., the National Housing Trust, the National Housing Law Project), specific owners (e.g., Mercy Housing, Preservation of Affordable Housing, Inc., Community Builders, National Church Residences), individuals (e.g., Amy Anthony, Vince O’Donnell, Shekar Narasimhan, David Smith, Helen Dunlap), industry groups (e.g., the Leased Housing Association, the National Association of Affordable Housing Lenders), CDFIs (e.g., the Low Income Investment Fund), peer networks (e.g., the Housing Partnership Network, Stewards of Affordable Housing for the Future, NeighborWorks), government agencies (state housing agencies, HUD, Fannie Mae, Freddie Mac), and industry intermediaries or technical assistance providers (e.g., LIHTC syndicators, Local Initiatives Support Corporation). No one organization or person was mentioned by a majority of interviewees; the National Housing Trust came closest, with 26 mentions. Stewards of Affordable Housing for the Future and state housing agencies (individually or else the National Council of State Housing Agencies) were the second most frequently named, each with 18 mentions.

Several interviewees concluded that the majority of champions are at the local level—many of them MacArthur WOO grantees or borrowers—which is where the majority of funding for housing is allocated. In the words of one interviewee,

Outside of Washington, D.C., there's been a huge change in the number of champions. Many of those champions are lenders who are now focusing on preservation who have much more national reputation. I'm thinking of Jack Markowski in the Chicago Investment Corporation. I'm thinking of Network for Oregon Affordable Housing in Oregon which is a preservation lender of national repute. California Housing Partnership which always had a good reputation but is now doing a lot of work in energy efficiency in California. The Natural Resources Defense Council and Energy Foundation [are now] focusing on energy efficiency on existing multifamily buildings and preservation of existing housing.

The strong advocacy is coming now at the local and state level through organizations like the Northern Virginia Affordable Housing Association, the Virginia Housing Coalition. It's almost . . . going back to where we were pre-Clinton, when folks kind of gave up on the Federal government and were developing, out of necessity, strategies and tactics and funding mechanisms at the local level and the state level.

The lack of a national nucleus and the local-level champions underscores a recurring theme regarding preservation, which is the decentralized nature of its definition, funding, and activity. As we will discuss below, this fragmentation is evident in the lack of a coherent definition of preservation or a policy justification for it at the national level.

Outcome 5: Greater Awareness of Preservation

One of the MacArthur Foundation's goals was to increase policymakers' and elected officials' awareness of preservation. The challenge was significant, because the long-standing emphasis of housing policy in the United States, as noted above, has been homeownership. The successful achievement of this outcome would require a greater appreciation of the existence and importance of rental housing and the challenges associated with those who rent. Only after making policymakers aware of the importance of rental housing could the preservation issue become relevant and salient. Our evaluation assessed whether both renting and rental preservation became more widely recognized during the WOO years. We then considered WOO's role in observed changes and assessed which strategies were most effective in this regard.

In summary, we found that awareness of renting and preservation both increased during the WOO years, and that WOO was a driver for at least the heightened saliency of rental preservation, if not general appreciation of renting, to "balance" housing policy. We found a diversity of views about preservation's definition and importance, suggesting that awareness of preservation did not result in a unified understanding of the concept. We did not find evidence that WOO built consensus about the definition of or reason for preservation. We close this section with a discussion of this last topic.

Rentership Has Attained Greater Legitimacy and Attention Among Elected and Appointed Federal and State Officials

As a backdrop to preservation, interviewees uniformly agreed that renting has gained legitimacy and recognition since the 1990s. As one interviewee put it, "*rent* [is] not a four-letter word anymore." A state housing agency head reported a "sea change in attitude" resulting in greater appreciation for and understanding of rental housing among state housing agencies. Experts told us that renting is no longer seen as simply a stepping-stone to ownership. Instead,

it is seen as a legitimate, substantial share of the economy, deserving of a “rational rental housing policy.” As an example, the 2010 National Affordable Rental Housing Symposium held at HUD was the first-ever White House conference on rental housing.

Most attributed the changing views on renting to a combination of the economy, lifestyle preferences, and changes in the supply of new housing. No interviewee credited the MacArthur Foundation as the primary source of the change. By far the most common reason cited for the improved stature of renting was the recession that began in 2007 and the ensuing foreclosure crisis, when many households transitioned from owning to renting or were delayed in shifting into ownership due to less lending. Several interviewees also attributed changing attitudes toward rentership demographic and lifestyle changes, which are leading younger generations to value geographic mobility because they anticipate changing jobs over their career and thus value the flexibility of renting. The older ages at which adults marry and have children, as well as growth in urban populations, has also fueled interest in renting. The built rental product has also become more attractive: “When you look at what’s being built in the market, market-rate housing for renters is really pretty fantastic, and it’s focused around transit-oriented locations.”

The improvement in policymakers’ perception of renting has not corresponded to a decline in support for homeownership. Interviewees talked about smaller change on the margins where views have “dimmed a little” on homeownership as an investment. Public opinion data support this point; a nationally representative opinion poll conducted annually in 2013, 2014, and 2015 found 72, 70, and 70 percent of respondents saying they aspired to homeownership (Hart Research Associates, 2015). While “the infatuation with ownership as the means of wealth accumulation” might be over, opined one interviewee, “the love affair with home ownership is ready to burst forth onto the scene anytime, given a little bit of encouragement.”

There Is a Greater Awareness of Preservation, Particularly Within HUD and State Housing Finance Agencies

Notwithstanding the lack of new tax code or laws, interviewees concurred that preservation is now a part of most states’ and federal “balanced housing policy.” They cited the fact that a majority of states have given preference for preservation in their LIHTC allocations, and that senior officials within HUD and the Department of Treasury consider preservation alongside new construction in their internal policy discussions about affordable rental housing.

A majority of those with whom we spoke reported that, relative to the 1990s, preservation has become a visible, accepted practice within state governments since 2000 and within HUD under the Obama administration. Preservation advocates no longer need to start “from scratch,” saying to policymakers, “Wait! Wait! Remember preservation!” As one developer put it, “We no longer have to justify ideologically the value of the preservation mission.”

While there was broad consensus that state housing finance agencies broadly understood preservation and, through the QAPs, had given it some degree of priority, there was less consensus on whether elected and appointed officials uniformly had an awareness of preservation. Responses split along geographical lines; interviewees in high-cost coastal states, such as Massachusetts and New York, affirmed that their elected state officials and public-sector staffers “absolutely get it.” But, in states that provide little to none of its own resources for housing, there is little to no recognition of the value of affordable rental housing. For example, a housing finance expert told us while referencing Midwest and noncoastal states that “There is no consensus around housing or its economic value in much of the country, whether we [government] should be even involved in it. I don’t think it has changed one bit.”

Experts were in greater agreement, but were less optimistic, about Congress, ascribing to members “low literacy levels” regarding housing, affordable housing, and preservation. Typical comments on this topic included “It really hasn’t resonated yet with the policymaking community in Washington” and “The message isn’t being conveyed effectively to members of Congress.” Several mentioned the loss of former congressional advocates such as Barney Frank and could not point to current congressional members who have taken up the mantle.

Interviewees attributed the change in attitude among state and federal government employees to WOO advocates’ education of state housing finance agencies, a greater awareness of the scope of the problem due to data advances, the proliferation of examples of preservation done well, a greater understanding of transactional practices that do and do not work, and a belief that “balance” in housing policy means both new construction and preservation. The appointment of WOO beneficiaries to key positions within these government agencies, such as Shaun Donovan as HUD Secretary, has also been important.

Experts told us that the MacArthur Foundation’s announcement in 2003 of a decade-long initiative about preservation served as a powerful signal to policymakers that helped get their attention and focus. WOO then hosted a set of public events such as the 2007 National Policy Forum and its 2009 Housing Preservation Symposium that introduced a wide range of constituents to preservation, its importance, and the barriers to doing it effectively.

Interviewees mentioned the foundation’s direct investment in data and building networks across organizations and between developers and the government more frequently than public convenings and communications. In the view of many, these likely played an even greater role in increasing awareness on this topic. We discuss this theme in the next section.

Data Played an Important Role in Raising Awareness of Preservation

Several interviewees identified compiling and interpreting data as the necessary precursors to convince state housing agencies and state legislators in particular to engage in preservation. The improved data better identified the scope of the problem. WOO grant funding also supported policy and research staff to interpret the data, frame the problems, and deliver messages in a way that gave public funders something concrete on which to act. As one person put it, “Having a data-driven process in place makes the political discussions easier to have. It does not take the politics out of it, but it makes the discussion easier.” The availability of data allowed state housing agencies, advocates, and preservation owners to quantify the potential loss of affordable rental housing and thus better advocate to state and federal officials for additional funds and attention to preservation. A policy advocate explained it this way:

Once we were able to provide very good data on how much housing was at risk by state and by location, it was a lot easier to do two things that we couldn’t do before. The first was . . . we were able to go into congressional offices with that data and point out by location that such and such a project in Storm Lake, Iowa, was at risk. . . . Then the second thing [is] we were able to talk to the housing finance agencies about how many units were at risk in their state and give them a map. That helped them convince policymakers that preservation of that stock was important, because there was not stock like that being built, and so you have to save it like an endangered species or else it will be gone.

Grantees described a two-step process to first try to identify the existing supply of subsidized rental housing, which is not straightforward, given the fragmented and outdated data

about different forms of subsidized housing. As a second step, grantees used that data to move out of a reactive crisis mode when a particular rental property was at risk of being lost from the inventory to a more anticipatory mode of knowing and strategizing about what housing was in the pipeline for upcoming expiration or other type of funding discontinuity. The data enabled grantees to be deliberate about their policy advocacy and allocation of scarce resources.

Interviewees resoundingly agreed that there are more and better data about preservation now than in the 1990s, and they directly attributed the improvement to WOO investments. Interviewees suggested that the MacArthur Foundation was wise to invest in data and data tools such as risk assessment algorithms. Among other things, these data have helped advocates and WOO recipients communicate the importance of preservation to policymakers by showing that subsidized rental housing in their jurisdiction was at risk of loss.

An example of the power of data to inform policy is the funding the foundation provided to the Furman Center for Real Estate and Urban Policy to develop a detailed database of all subsidized properties in New York City. The Furman Center reported directly to an interagency working group composed of the commissioners from each of the major housing agencies in New York City and State, and worked with them to collect these data, and directly reported the analysis of these data to the commissioners. Researchers at the Furman Center found that over one-third of all subsidized properties in NYC received more than one form of rental subsidy and all layers of financing on a property needed to be considered to determine when an owner can truly exit affordability restrictions. Such data were essential to developing an early warning system of which properties were likely to opt out, and became an active part of interagency discussions about preservation strategies. The Furman Center's public release of this database garnered a lot of public attention and was featured in all of the major press outlets because it was the first time the "preservation problem" in New York City was fully quantified. This then prompted New York's City Council to award the Furman Center a grant to train local developers, city officials, tenant organizers, and tenants themselves on how to use these data in an effort to preserve the existing subsidized rental housing stock.

Several interviewees also praised HUD for putting out more information (and more frequently updated information) about subsidized rental housing through the national LIHC database (HUD PD&R, no date-a), the Picture of Subsidized Households data utility (HUD PD&R, 2015), and the Section 8 contracts database (HUD PD&R, no date-b). Others credited the work of the National Housing Trust and the National Low Income Housing Coalition to build and update databases, and to the foundation for funding database work. Experts described these data as "extremely powerful as a tool to guide policymakers, to analyze potential transactions, to figure out strategy with problem properties."

While the Awareness of Preservation Increased During the WOO Years, a Consensus Definition of Preservation Has Failed to Emerge

Interviewees' varying definitions made clear that the what, who, and where of preservation are each disputed. As a reference point, the MacArthur Foundation defined preservation as "Affordable rental housing is preserved when an owner acts to keep rents affordable for low- and moderate-income households while ensuring that the property stays in good physical and financial condition for an extended period" (MacArthur Foundation, 2009). We heard several variants on this definition from experts as we describe below.

What Counts as Preservation

Virtually all interviewees agreed that preservation includes actions that keep an existing affordable rental unit (whether subsidized or unsubsidized) affordable to low-income households. This includes renewing a subsidy on a given property when the original subsidy expires, acquiring a property that was likely to become unoccupied due to disrepair, or refinancing a property to extend its affordability. Most interviewees agreed that purchasing an unsubsidized affordable rental property at threat of loss due to obsolescence or increasing rents and maintaining it as affordable and in good condition counted as preservation. There was some debate about how to view activities where an affordable rental housing unit leaves the affordable stock but is replaced by another unit located elsewhere. An example of such an action is porting a subsidy from property A to property B, which some did and did not view as preservation.

Who Should Be the Focus of Preservation

This was the subject of more heated philosophical disagreement among practitioners. Some believed that resources should be used exclusively to provide affordable housing for the neediest of the population, such as those who earn 30 percent or less of the area median income. Others emphasized the political pragmatism of maximizing the number of households touched, which means providing smaller subsidies per unit and serving low- and even moderate-income households. This discussion covered the same terrain as the trade-offs of targeting housing aid, which we discuss in Outcome 1 regarding nonprofit owners' struggle to "maintain mission" while running a financially sound, sustainable business.

Where Affordable Rental Homes Are Preserved

The "where" dimension was the most mentioned and contested aspect of preservation. Many interviewees struggled with the tension over "whether to preserve in their existing place in their existing configuration, or whether that subsidy ought to be moved to other places." Or, as another interviewee put it more bluntly, "everyone who cares about deconcentration of poverty is at odds with, or anyways, has mixed feelings about preserving a lot of affordable housing in the places where most of it was built." The debate over the appropriate location of affordable housing, which in simplistic terms asks whether it is better to have fewer affordable homes in highly desirable high-cost neighborhoods versus a greater number of affordable homes but in low-cost areas of concentrated poverty, has erupted in the media given recent research from Chetty, Hendren, and Katz (2016) about the long-term impacts of children living in "high opportunity areas." Several referred to this heated debate as one that "splits the affordable housing community" and goes to high levels within Treasury and HUD.

Interviewees who discussed this theme generally adopted one of three positions:

1. **"Preserve what you have got."** The logic here is that the scarcity of the resource dictates the most-efficient route to supplying affordable housing. This route is often preservation because "every unit that is preserved under some kind of long-term affordability regulatory regime is a unit you don't have to build"—even if "preserving 100 percent low-income islands of concentrated poverty, [which] I'm not sure is a great public policy." Others talked about wasteful competition between new and older affordable housing: "We shouldn't decimate a market because someone wants something new and better. Make that current property better."

2. **Do not preserve projects that are physically obsolete or where there is no market.** This logic emphasizes whether a project meets a local need rather than analyzing its location as a gauge of its desirability. For example, one person told us “You shouldn’t preserve efficiency units. No one wants them anymore. Even if they are subsidized, people don’t want to move into them.” Another told us that “some of the [rural] projects are not needed. Fine, let’s let them out of the project-based rental assistance program, but let’s at least capture some vouchers for these tenants then, so they’re not having the doubling and tripling of their rent. Not all preservation advocates would agree with me on that. A lot of the people, even on the rural preservation working group call, they want project-based rental assistance for forever. It doesn’t always make sense.”
3. **Prioritize preservation of properties in “opportunity-rich areas.”** This position prioritizes the location of the house as the primary factor because location dictates access to transportation, schooling, neighborhood amenities, and health care. One means to this end is to place “urgency” on affordable properties that are in safe and decent neighborhoods. One interviewee worried about the “optics” of prior preservation, “I’m a little concerned that all of the effort we’ve done over the past ten years to do preservation and to get it equal with homeownership has created the opportunity for people to say, ‘Yeah, and all you’re doing is preserving stuff in bad neighborhoods.’”

Note that two policy developments in 2015 have the potential to shift the nature of this debate. First, HUD released a revised version of its Affirmatively Furthering Fair Housing rule (“Affirmatively Furthering Fair Housing,” 2015), which is the first revision in more than 20 years. The rule establishes in regulation HUD’s view that an inclusive both/and approach to the question of where affordable housing is located—i.e., to both invest in high-poverty neighborhoods and to increase the supply of affordable rental housing in low-poverty neighborhoods—is preferable to an either/or approach. Through the rule, HUD encourages local jurisdictions to consider providing affordable rental housing in high-cost communities as well as shoring up the housing stock and redeveloping to create opportunities in lower-income communities that have a significant minority presence.

Second, in *Texas Department of Housing and Community Affairs v The Inclusive Communities Project*, the U.S. Supreme Court ruled that claims of disparate impact were legal under the Fair Housing Act. In the specific case, the Court ruled that Texas perpetuated segregation by having policies that funneled a sizable majority of units produced using the LIHTC program into lower-income neighborhoods with high minority populations. The ruling established that this approach is not legal, with the ruling highlighting the notion that a both/and policy—i.e., a policy to place affordable rental housing in both lower- and higher-poverty neighborhoods—must be credibly pursued.

These two reinforcing developments may potentially shift the debate from a discussion focused primarily on where affordable housing is sited to a discussion of how best to consider the various approaches to providing and preserving affordable housing.

While the Awareness of Preservation Increased During the WOO Years, There Remains No Consensus View on Why It Is Important

Experts with whom we spoke mentioned 15 different justifications for preservation, ranging from the economic, to the moral, to the politically expedient. These reasons, along with examples, are listed in Table 5.2. Among the 15 justifications, cost-effectiveness was the most com-

Table 5.2
Fifteen Reasons Experts Gave for Preservation

| Reason | Examples |
|--|---|
| 1. Preservation is cost-effective. | <ul style="list-style-type: none"> • “Preserving affordable housing is a hell of a lot less expensive than creating it from scratch.” • “They [policymakers] can spread the money over more units and take credit for doing more if they use the money for preservation rather than for new construction.” • “It is less costly so it takes less resources. You can do more.” • “It costs a fortune to build new housing. There is tremendous need. We could never build the housing for those in need. We better preserve what we have. The preservation costs are a fraction of the new construction costs.” • “Preservation is production because if you don’t preserve it, you will lose it and then it is going to cost you an incredible amount of money to replace the unit.” |
| 2. At least keep what we have. | <ul style="list-style-type: none"> • “For me it really comes down to, we have stock that works. Let’s keep them safe and sanitary and affordable.” • “There is just such a dearth of appropriated dollars for new activity, or at all, that the focus on making sure we’re at least preserving what assets we have has been important.” • “You have to save it like an endangered species or else it will be gone.” • “Although we were trying to produce units as fast as we could in a very inefficient way, we were losing them faster than building them.” |
| 3. Housing matters. | <ul style="list-style-type: none"> • “Housing determines so many other things. If a kid is living in a rotten house they’re not going to learn.” • “I think being able to say housing is important and rental housing is really important, and here’s why. It’s very impactful in terms of a child’s learning ability. It’s very important in terms of family’s ability to eat. . . . To be able to draw those linkages into areas that didn’t feel quite as worn out to the public and to the funders and investors, I think has been very important.” • “The [how housing matters] research is incredibly useful to us, particularly in a state where you have a governor whose favorite thing is education, and [yet] he hates housing and he cannot connect the two dots.” |
| 4. Preservation prevents deterioration and blight. | <ul style="list-style-type: none"> • “Preservation was a means of rebuilding communities; it was combating disinvestment and deterioration.” • “Frankly, I have always believed that the vast majority of affordable housing lost is due to deterioration and disinvestment.” • “Back in the 90s [preservation] tended to mean more preserving them from converting to market. I think as the properties have continued to get older, it not only includes those that are at risk of converting to market, but it also includes those that are at risk because of physical deterioration.” • “The risk in preservation environment is, I got housing authorities who are incompetent, I got 515 projects that have obsolete owners. I’ve got 202s and other very old properties that need renovation and reinvigorated management. I’ve got operational and financial systems that are antiquated and stuff like that.” • “Really, the much greater risk is downside risk. That the project needs renovation . . . that the owner is no longer the best and needs to be replaced . . . that we have financing ballooning and we have a financial exposure risk.” |
| 5. Preservation is economic development. | <ul style="list-style-type: none"> • “Preservation has such an important role in keeping up the economic stability of the small towns.” • “It is good for economic development in certain neighborhoods.” • “Those within rural [areas] have an easier sell and I think most of the policymakers that we talk to . . . recognize these projects as resources in their communities.” |
| 6. Preservation is community development. | <ul style="list-style-type: none"> • “I do think that the vast majority of what is being done now in community development would fall under the preservation umbrella.” • “You have a wider lens. Housing exists in neighborhoods. Housing is connected to all of the things that are central to community life. It also relates to the questions of civility, for example. Civility and safety.” • “Affordable housing is a community asset that must be preserved.” |
| 7. Preservation retains diversity within gentrified areas. | <ul style="list-style-type: none"> • “If you don’t want your cities to be the very rich and the very poor, if you want to have housing that’s for people who drive the bus and work in the library and oftentimes who even work for city government, then you’ve got to think about preserving stock.” • “Getting housing right is what it takes to get cities right. You cannot integrate a city by income or by race if you don’t get the housing stock right. Period.” • “Preservation is really critical to the social stability of the city itself, given that approximately one-third of NYC housing stock is some form of rent-stabilized or regulated units.” • “Gentrification is a political reality that has no easy solution, and preservation is one way that that a public official can look like they’re fighting back.” |

Table 5.2—Continued

| Reason | Examples |
|--|---|
| 8. There's less NIMBY resistance to preservation than to new construction. | <ul style="list-style-type: none"> • "There's an incentive for developers to get involved with preservation just because they can put a deal together more quickly." • "You undercut the brutal struggle over permitting which otherwise permeates new construction of affordable housing. The residents love it and the neighbors love it and it's very easy to be accepted by everybody. So that makes it something that obviously elected officials like." • "You don't run into NIMBYism [Not In My Back Yard-ism] quite as frontally." • "Preservation of existing [housing] is an easier path than getting a re-zoning and going through a public process around affordable [housing]...." |
| 9. Tenants, particularly seniors, can remain in place. | <ul style="list-style-type: none"> • "It just makes so much sense to do it then you don't have to relocate people." • "They are elderly tenants. When push comes to shove, they will all show up at 26 Federal Plaza or at Chuck Schumer's office . . . out of their minds because they are in jeopardy of losing their units. I think the political face for protecting that housing stock is pretty strong." • "When you talk about it particularly as a resource for seniors, you know they [federal politicians] often resonate to that." • "The rural population is disproportionately older and getting older, so it . . . providing those alternatives for rural rentals is important." |
| 10. Preservation is part of a balanced housing policy. | <ul style="list-style-type: none"> • "No one in any city can build enough affordable housing from scratch so preserving the existing stuff has to be a part of everybody's policy objectives, period." • "Home ownership is not the panacea that everybody thought it was, and some people will never be ready for home ownership. That's why we need quality affordable rental stock to be able to provide housing opportunities to those folks." • "Our populations are growing so how we can possibly meet this crisis by just preserving what is out there. . . . [That] is totally never happening." • "In large urban environments like Boston you're really not going to build your way out of an affordable housing problem so you've really got to hold on to the affordable housing stock that you have available." |
| 11. Preservation is ecological. | <ul style="list-style-type: none"> • "The most green thing we can do usually is to preserve a building." • "The greenest building is the one that's already built." • "It is obviously much less damaging to the environment to do preservation than new construction, right? I think that is proven now." • "A lot of times people lump green and that kind of stuff into preservation and I think energy efficiency is good if it saves money, but if it's to make it green, look green, I think it is kind of overdone at some point." • "To me, preservation itself is green. Start there, but don't gild the lily with extreme examples of grass on the roof, that kind of stuff." |
| 12. Preservation timeline fits within an election cycle. | <ul style="list-style-type: none"> • "Policymakers are generally in those positions for short periods of time. New construction takes too goddamn long for them to take credit for anything." |
| 13. Avoid another missed opportunity. | <ul style="list-style-type: none"> • "I know for a fact that we were all just kind of behind the curve pretty substantially from the beginning, so there was a lot of missed opportunity." • "There's been a lot more recognition [of] the crisis of sort of losing it, and it's already there, and it's really hard to build, and NIMBYism, so, you know, it's just more efficient to get control of it rather than let it get lost and gone forever." |
| 14. Preservation is less risky than new construction. | <ul style="list-style-type: none"> • "We do not have entitlement risk. We do not have construction risk. We do not have demand risk. We do not have building code risk. There's a million reasons why preservation is less risky." |
| 15. Preservation keeps intact the physical profile of the neighborhood. | <ul style="list-style-type: none"> • "Wherever possible, not to tear down and to rebuild; and part of that was cost, but part of that was also about preserving, kind of, by definition then, those buildings would fit into the existing neighborhood fabric." |

monly mentioned and also empirically backed. Recent research sponsored by the MacArthur Foundation found that, in a convenience sample of LIHTC properties, the cost of new construction was 25–45 percent more than the costs of acquiring and rehabilitating a similar property over a 50-year life cycle of a building (Wilkins et al., 2015).

The number of reasons for preservation may be one explanation for the difficulty experts reported in conveying why preservation is important in a manner that elected officials in particular would find compelling. The multiplicity of reasons, while perhaps all true, indicate that a dominant case for preservation has not yet emerged. One interviewee wondered, “I am still puzzled about why housing security—affordable housing—doesn’t resonate more broadly.”

Interviewees cited several possible reasons for the lack of a unified, compelling narrative. Several interviewees blamed the “wonk speak” of preservation, such as the insider references to the programs with all the “funny letters and numbers” as the reason preservation does not resonate with nonspecialists. As one person put it, “I frankly don’t think we do a good job of making our case for affordable housing. I am not quite certain how you make it, but I know we just don’t do it.” Another reason people think preservation does not resonate is that the case for preservation is often framed in negative terms—e.g., let’s at least keep what we might otherwise lose. One person criticized this approach as “deficit” rather than aspirational, inspiring thinking. As another practitioner told us, “The word *preservation* does not sound very active, does it? . . . It doesn’t sound dynamic.” Others blamed fatigue, owning up to “a resignation that, after 50 years of . . . talking about the need for affordable housing, it has just not proven to be as powerful as an argument as all of us who are in the field think it should be.”

The wide range of reasons given for preservation occurs in part due to the lack of a consensus on what preservation is and what problems it is intended to fix. Tellingly, one interviewee told us, “I’m still trying to figure out what preservation means ten years into it.” The closest interviewees came to a distilled schematic for preservation is the “bifurcated challenge” of, on the one hand, the upside risk of displacing low-income residents due to owners opting out of maintaining the affordability of multifamily rental in favor of converting the properties to a more-expensive market rate, and, on the other hand, the downside risk of allowing properties to deteriorate so that they fall out of the low-income housing stock due to foreclosure and/or vacancy.

Another way experts sought to simplify the many definitions of and justifications for preservation was to frame preservation more broadly to encompass at least many, if not all, of its facets. In some cases, they defined preservation so broadly as to even remove the word “preservation.” Thus, we heard formulations like “Housing matters,” “Preservation is community development,” and “Preservation is production.” By casting preservation in human terms, advocates and practitioners sought to cut through the regulatory complexities and justify preservation in ways that a lay person can understand. “What are the basics here? If a kid is . . . sleeping on the bus at night because that’s the only place where parents can afford for her to live, how is she doing in school during the day?”

Framing preservation as community development also touches on the generational shift away from the “old HUD programs” of federally subsidized rental housing toward a broader definition of preservation that includes the focus on mixed-income development that started with HOPE VI in the 1990s. As one interviewee told us:

Twenty years ago, pretty much the working theory was that we needed to pinpoint our resources into areas of distress with the belief that those investments would reverse eco-

conomic flow somehow. I wouldn't say that people don't believe that anymore, but I would say that they believe that *and* they believe other things, too. They also believe that it's really important to invest resources in good places, and there's much more acceptance to the idea of mixed-income housing than there used to be. I would call it an evolution of the way in which community development positions itself and sees its mission. It's much broader. . . . It's more appealing.

In the absence of agreement within the field about "the case" for preservation, experts returned again and again to the idea that what tends to "work" to get preservation to happen depends on the locality:

When I've seen [preservation] break through, it's because it's pretty market- or state-specific, so there's a sense that there's sort of a flood of expiring use and it's retail politics. It's very contextual and it's also about who's in office and to what degree do they want to make it an issue? Are they campaigning for Grandma? Is it poor people? I mean it's very retail, very basic, political.

The relative invisibility of preservation and its inherent variation, which depends on local market conditions, tenant mix, ownership structure, and the local funding climate, means that the case for preservation must remain "a little bit all over the place." Given the localized nature of preservation, the case for preservation might need to remain local. As one interviewee explained, "There doesn't have to be a single reason, and there isn't." Another explained, "It kind of depends on what sells in the local political market as to how you frame your preservation programs."

But preservation experts came down on both sides of this question, wondering if something is not lost in the fragmentation: "You are kind of utilizing the audience and the message that works with the audience, but as a result we often kind of lose the support and realization for preservation." Another preservationist bemoaned that "there are people championing it but there's no obvious nexus for the case for it." So, although experts concurred that WOO raised the prestige of preservation, and awareness of it, they did not indicate that WOO played a role in setting the terms of preservation or otherwise causing consensus to build around a national "case" for it.

Outcome 6: Preserve 300,000 Affordable Rentals by 2020

As the WOO initiative evolved, so did its numerical goals for the number of affordable rental homes it would help preserve. The initial stated goal was 100,000 over five to ten years, but that goal tripled in 2007 when the foundation tripled its total planned investment from \$50 million to \$150 million. We evaluate WOO in the context of this outcome by examining data from grantees and from HUD sources as well as from interviews with experts in the field.

WOO Recipients Appear Likely to Fall Short of the 300,000-Unit Goal

According to unpublished data assembled by PolicyMap in 2015 from special-purpose vehicles, owners, and developers that received WOO grants or loans, the foundation directly funded organizations that preserved approximately 150,000 units over the course of the WOO ini-

tiative, a pace that suggests WOO will fall short of its goal that WOO recipients preserve 300,000 affordable rental units by 2020.

According to the recipients' reports, the rental homes that WOO recipients preserved were distributed across all 50 states. In ranked order, the states where the greatest shares of the partially WOO-funded preserved homes were located were New York (10 percent), California (9 percent), Ohio (8 percent), and Illinois and Virginia (7.5 percent). The preserved affordable rental homes served a wide variety of tenants, including seniors, persons with HIV/AIDS, families, and formerly homeless.

Note that we do not know how many of these units would have been lost from the affordable stock if not for WOO. And three interviewees questioned whether WOO substantially increased the number of units preserved. Despite the wide agreement that the capacity of non-profit developers had grown substantially, there was disagreement as to whether the growth in capacity translated into meaningful growth in the number of preserved units. As one person told us, prior to MacArthur's investments, nonprofits might have been preserving 40,000 units per year (which happens to equal the number of preserved units per year financed with 4 percent or 9 percent LIHTC equity in the most recent three years for which there are data). With the WOO initiative, this interviewee guessed nonprofits might now be preserving 50,000 per year. Though this represents a 25 percent annual increase in the number of preservation units, this scale is small relative to the overall rental housing market: "I just don't think they moved the needle." Another person told us that, in terms of preserved units, "It doesn't feel like there has been much change." But a third person disagreed, saying that "prior to 2000, 90 percent of tax credits [LIHTC] were being allocated to new construction, and now we know that over 50 percent are rehab." The aging of the LIHTC stock may comprise a substantial portion of the shift, since LIHTC owners may be requesting more tax credits as their properties need to be recapitalized.

Another challenge, aside from not knowing the number of rental homes that would have been preserved in the absence of WOO, is that there is still no reliable national source of data that catalogues which properties renewed their subsidies without going through a major restructuring. For example, if an owner of a unit voluntarily renews a housing assistance payment contract with HUD, the unit may not count as being "preserved" by a housing financing agency. In addition, HUD's public data does not provide information on subsidy renewals.

In short, the only way to know whether a property's subsidy is renewed is to create a database that follows every property with a subsidy over time. Such a database currently does not exist. Much of the existing data infrastructure to track these properties over time, such as they are, were developed only in the 2000s, thanks in part to MacArthur's funding. National databases, such as the National Housing Preservation database, created by the Public and Affordable Housing Research Corporation (PAHRC) and the National Low Income Housing Coalition (NLIHC), have some information on subsidy renewals absent a repositioning of the property. However, PAHRC and NLIHC note that the quality of this information decreases substantially the further back in time one goes from 2010. Some local databases, such as those at the Shimberg Center and the Furman Center, have better approximations of which owners renewed their subsidies, with and without a repositioning, as far back as 2004 and 2002, respectively, but not before then and not on a national level.

In light of this data challenge, another approach to explore trends in preservation is to look at the share of rental homes that remained in HUD's portfolio in any given year. For example, almost all project-based Section 8 contracts were due to expire at some point between

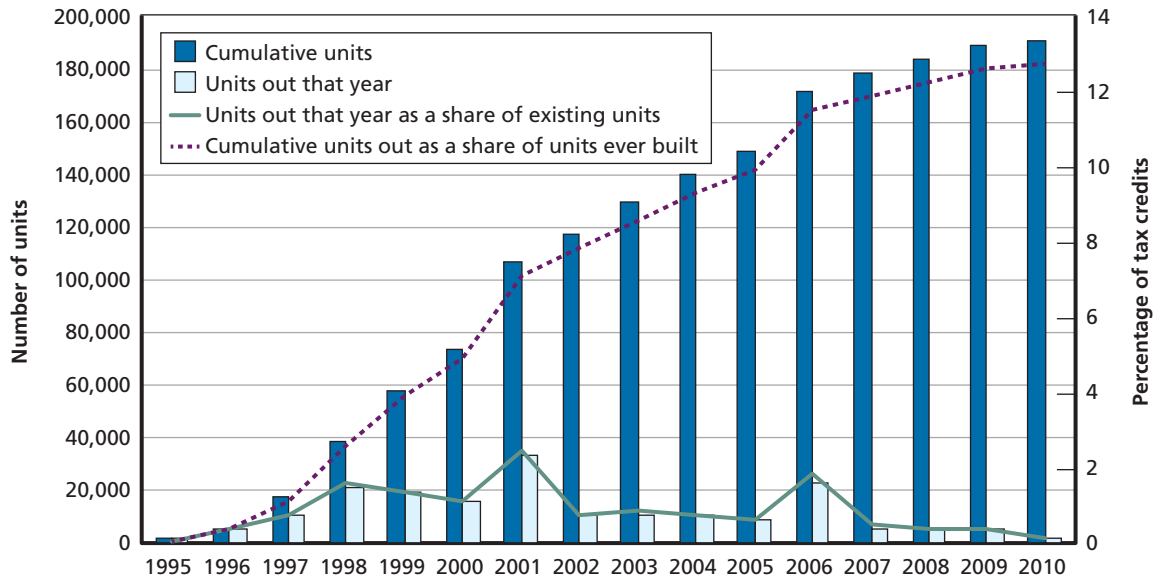
1995 and 2015, which means that at one point during this period, every property could either exit the subsidized portfolio or renew. Figure 5.4 shows the number of units that exited the project-based Section 8 program by year, what share of units that were active in the beginning of each year exited that year, as well as the cumulative number and share that exited the program since 1995.

Several trends are evident. First, the largest *number* of units and the largest *share* of units exiting the project-based Section 8 program happened in 2001. That exit rate and count dropped by half for all subsequent years, except for 2006, which was the peak of the housing market when the upside financial benefit to owners from exiting was greatest. While we cannot make any causal claims, it is likely that increased awareness of preservation, data about which properties will need to be preserved in future years, and financial resources to preserve units likely contributed to fewer units exiting this portfolio post-2001.

Despite the disagreement among the experts we interviewed about whether to characterize the shift in preserved units as large or small, evidence from Chapter Six indicates that the preservation counts are dwarfed by the size of the overall rental affordability problem, which grew very much over 2000–2010. In the absence of those data, nonprofit and for-profit owners we spoke to pointed to an unquestionably more robust nonprofit “delivery system” for preservation. The comment that follows is representative of the qualified praise experts accorded MacArthur:

I think the delivery system for affordable housing rental preservation, unfortunately, is still being stick built. We didn’t bend the cost curve. We didn’t bend upward the capacity curve. So, if we were measuring ourselves only by those outcomes, we didn’t succeed. If we are measuring ourselves on visibility, resources that got attracted, research that was done that

Figure 5.4
Number and Share of Units Exiting the Project-Based Section 8 Program, by Year



SOURCE: Analysis from Reina and Winter, in progress.

RAND RR1444-5.4

was seminal, public policy debate, focus by state institutions, we succeeded. So I would call it a draw.

A further issue that potentially hindered progress on this goal is that, although public documents consistently highlighted the numerical goal as central to WOO, internal documentation and staff interviews indicated that the numerical count was of low priority. As one MacArthur employee told us, “The fact is we barely tracked the [numerical] goal, because it was really about getting people to act differently.” Data collection from grantees reflected the secondary importance that MacArthur staff placed on the numerical goals; for example, annual surveys of grantees were planned but not consistently executed, and data collection from grantees was fairly minimal and lacked standardized categories for data reporting that would enable easier aggregation of reports.

As a final factor, some thought WOO’s impact in terms of number of units preserved was limited by the decision to exclude for-profit developers who, in turn, own the majority share of unsubsidized affordable rental housing. Given that unsubsidized rentals constitute the majority of the affordable rental housing stock in the United States, one person told us,

I never saw the vehicles for how we were going to affect 95 percent of the affordable aging multifamily rental stock, and yet I think I recall the kind of language of Window broadening. But there was never a theory of the case for how MacArthur and Window of Opportunity through PRIs [were] going to affect the economics of preserving the unsubsidized rental stock.

Interviewees noted that MacArthur pitched to the top of a relatively narrow class of owners—i.e., the most sophisticated and typically the largest of the mission-oriented nonprofit owners—overlooking the owners of small, unsubsidized multifamily rentals and larger for-profit developers. While interviewees were unsure whether the financial tools and effective networks exist to reach them, the class of small multifamily owners could be “a tremendous resource of untapped potential [in that] they do own most of the rental housing in this nation.” One interviewee noted that his “biggest complaint” was that, decades into preservation, “Have we found a nonprofit that knows how to manage scatter sites, small multifamily? Have we created the capacity to be able to go into neighborhoods and help small, private builders do this? No.” Had they been included, several experts felt that MacArthur could have deepened its impact on preservation.

Conclusion

The WOO initiative represented an ambitious set of strategies intended to change housing policies and practices to facilitate more preservation of affordable rental housing. The MacArthur Foundation identified five principal barriers to achieving this goal:

- too few significant nonprofit owners who had made preservation a key strategy
- inadequate financial support for preservation
- a policy framework that either made preservation difficult or placed preservation at a lower priority
- too few organizations involved in preservation advocacy and policy development

- little general awareness of preservation as a problem.

WOO was designed to provide at least partial solutions to these problems, with the hope that the changes it sparked would result in at least 300,000 units of affordable rental housing being preserved by MacArthur-funded owners and special-purpose vehicles by 2020, and, more broadly, 1 million units preserved through an improved policy framework for preservation.

Our evaluation of WOO points to many achievements. The field of preservation has more players, and these players are more sophisticated. There are more resources that can be used for preservation, most notably through the LIHTC program, and policies at the federal and state levels have become more preservation-friendly. WOO-supported peer networks and intermediary support organizations, such as the Housing Partnership Network, Strength Matters, and Stewards of Affordable Housing for the Future, have helped to spread and standardize practices among large nonprofit owners. Awareness of preservation has increased. Indeed, among those interviewees who were familiar with MacArthur's investments in preservation, there was a consensus that the Window of Opportunity initiative was well-structured, innovative, and accelerated ongoing change within the field, especially among nonprofit preservation owners.

Yet WOO is likely to fall short of its 300,000 unit goal, and a policy framework is not in place that will reverse the projected loss of affordable rental housing. The first, and perhaps most significant, reason for this shortfall was the failure of efforts to pass federal legislation regarding preservation or secure tax code change, which would have likely sparked much more preservation activity. WOO operated in a period when Congress failed to pass almost any kind of legislation about housing at all, let alone about preservation. A second, related factor is the financial crisis that depressed real estate activity in general and reduced the volume of preservation transactions. A third factor is the lack of a clear, compelling narrative for preservation, which resulted in a somewhat disjointed approach to the issue and contributed to disagreements about strategies and a diffusion of energy. Fourth, the MacArthur Foundation itself prioritized changing the nonprofit owner industry, not the much larger for-profit owner industry, and it prioritized the policy environment over the unit count.

Interviewees continue to grapple with fundamental questions about preservation. These dilemmas pertain to who is best suited to do preservation, what types of housing should be preserved, and how to define and justify preservation so as to elicit the most resources. Because there is a diversity of viewpoints regarding these questions, the experts we interviewed expressed concern about the future of preservation as a unified field in the wake of MacArthur's withdrawal from housing philanthropy. Without MacArthur's leadership, they feared a splintering of existing coalitions over these issues and a less coherent field moving forward. We revisit this theme in Chapter Six, where we conclude.

Conclusion

In this chapter, we summarize our findings about the Window of Opportunity initiative and we place them in the context of changes that happened to the housing market during the first decade of the WOO initiative. Specifically, we examine the availability of affordable rental housing over the 2000s to understand whether WOO had an effect on retaining or increasing the supply of affordable rental housing. We conclude with six lessons for the MacArthur and for other foundations as they design philanthropic initiatives.

WOO Outcomes in Context

Motivated by a 1999 research report forecasting the potential loss of a million privately owned affordable rental homes (Joint Center for Housing Studies, 1999), in 2000, the MacArthur Foundation launched its preservation initiative called Window of Opportunity. WOO grew into a 20-year effort that included \$187 million of loans and grants. In this report, we have described the seven strategies by which the MacArthur Foundation has sought ambitious changes in the preservation of affordable rental housing. The ultimate objective of the initiative is to help secure a policy framework that would mitigate, and perhaps even reverse, the projected loss of affordable rental housing.

We found that Window of Opportunity has achieved many of its desired outcomes, but that these outcomes failed to induce change at the desired scale. Through its philanthropic initiative, the MacArthur Foundation raised awareness of preservation; increased the prestige associated with this activity; strengthened and branded as a sector large nonprofit developers that preserve affordable rental housing; instigated innovations in ways to fund preservation; and supported advocates who helped secure significant policy and funding changes primarily at the state level, and, to a lesser degree, at the federal level. These achievements are considerable, especially when taking into account the challenging legislative and economic era in which WOO operated.

However, these accomplishments did not resolve structural problems for preservation that we believe inhibited WOO's ability to achieve impacts at the desired scale. The largest inhibitor of preservation was the economic downturn in the WOO years. Due to the downturn, the rental affordability problem grew significantly rather than shrank; rental housing became substantially less affordable in the first ten years of the initiative, compared with the relatively benign period in the decade leading up to WOO, during which widespread unaffordability improved very modestly (described in Chapter Two).

Our analysis shows that rents increased¹ across almost every MSA between 2000 and 2010, even as real incomes of renters declined.² The combination meant that the average renter in the United States had a substantially greater rent burden than in the decade prior.³ In addition, both the number and share of renters increased, which put pressure on the market and exacerbated the rent burden. The U.S. homeownership rate peaked in 2005 at 69.1 percent and then declined to 66.9 percent by 2010,⁴ causing a sizable exit from ownership into renting.⁵

An increased number of renters would not necessarily lead to an increase in rents if there was a large increase in new rental units. However, new construction lagged behind the number of increased renters, particularly toward the end of the decade, as new construction of multi-family housing slowed sharply beginning in 2008, and did not recover for the remainder of the decade.⁶ Higher rents were a product of increased demand for rental units, which was not met by a sufficient supply of more rental units.

That said, there was a bright spot in one segment of the rental market supply where the WOO initiative was focused: The supply of subsidized rental housing increased, primarily due to the LIHTC program, which more than doubled in size to almost 1.9 million units between 2000 and 2010 (see Figure 6.1). The increase in LIHTC more than offset the smaller declines in public housing and project-based Section 8 vouchers during this time. This increase does not reflect an expansion of the LIHTC program, but rather a continuation of the existing annual commitment to the program. As described in Chapter Five, interviewees credited the MacArthur Foundation with timely financial support of advocates that helped to effect increased LIHTC allocations for preservation.

Unfortunately, this segment, though critical, represents a relatively small portion of the affordable rental housing stock. The largest segment (54 percent) of affordable rental housing consists of single-family (1–4-unit) structures. The WOO initiative, by contrast, focused primarily on the preservation of multifamily affordable rentals. This reflected a choice by the foundation to focus on large nonprofit preservation-oriented owners who, by and large, were preserving subsidized rental housing, which is most often in multifamily dwellings. The rationale for focusing on large nonprofit preservation owners was that they had sufficient scale to innovate preservation practices and to advocate at the state and federal levels for increased

¹ Rents at the 20th percentile of the rent distribution rose in 90 percent of the 238 largest MSAs in the United States, with an increase of 17.5 percent in real terms on average in MSAs over the decade. This compares with a 1.1 percent increase in rents over the 1990s. Similarly, at the 40th, 60th, and 80th percentiles of the rent distribution, rents rose in 89 percent, 90 percent, and 93 percent of the metropolitan areas in the United States, respectively.

² Incomes fell by an average of 15 percent at the 20th percentile, and 15, 13, and 10 percent at the 40th, 60th, and 80th percentiles, respectively. And incomes fell in virtually all metros regardless of the renter's income level; renter incomes at the 20th, 40th, 60th, and 80th percentiles of their income distribution fell in 88, 94, 93, and 88 percent of the metropolitan areas, respectively.

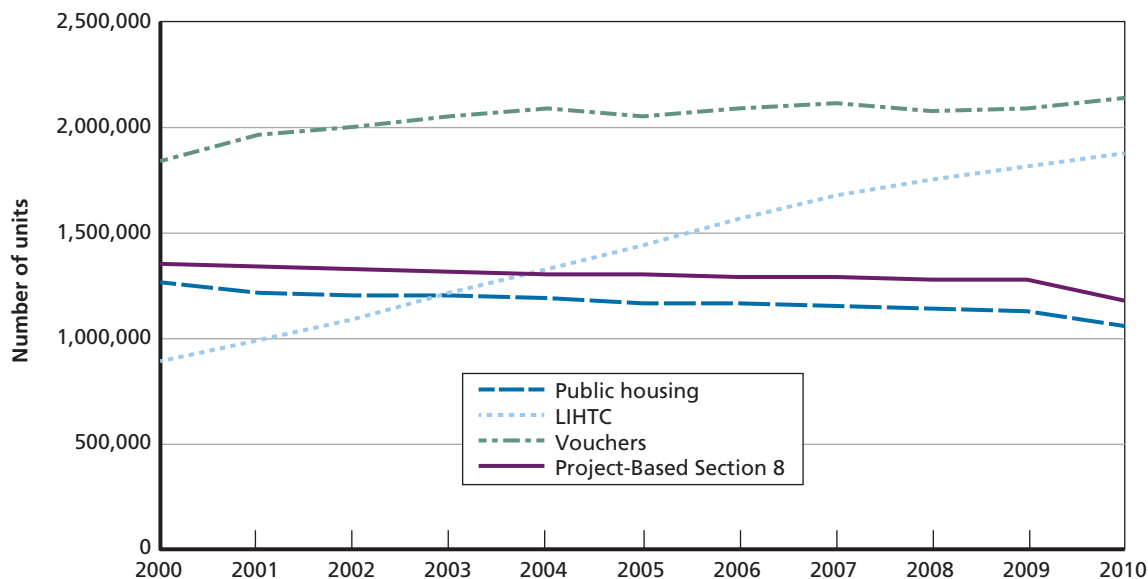
³ Rental affordability for renters with incomes at the 20th and 40th percentile distribution improved in only two of the 238 MSAs we studied over the 2000s (Decatur, Alabama, and Rochester, Minnesota), and it did not improve in a single MSA for renters with incomes at the 60th and 80th percentiles.

⁴ It has since declined even further, to its lowest level in more than 30 years.

⁵ On balance, there were 14.2 percent more renters in 2010 than there were in 2000—the additions averaged about 350,000 new renter households per year—and they came to occupy 40 million units.

⁶ In 2000–2010, the United States built an annual average of 326,000 rentals with five or more units, but only 295,000 were built in 2008, 121,000 in 2009, and 135,000 in 2010. Taking into account the fact that housing units leave the stock each year due to obsolescence, the true net annual creation of rental housing units is smaller than the average of 326,000 units.

Figure 6.1
Units of Federally Subsidized Housing, by Program, 2000–2010



SOURCES: Collinson et al., 2015; Reina and Winter, in progress; National LIHTC database (HUD PD&R, no date-a); HUD's Picture of Subsidized Households (HUD PD&R, 2015).

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resources and policy tools to ease and expand preserved units. This decision was understandable, but it also meant that WOO's scope was, while significant, focused on a minority of privately owned affordable rentals.

In addition to the Great Recession and the ensuing housing crisis, we identified three primary policy barriers to preservation reaching a larger scale during the WOO years:

- A lack of federal congressional commitment to preservation legislation that would have spotlighted preservation as a national priority. Such a priority declaration would trigger reform of other federal, state, and local programs to incorporate preservation explicitly, thereby expanding the resources devoted to preservation.
- Few funding vehicles and policy efforts to engage the largest owner type of affordable rental housing: for-profit owners of small numbers of units.
- A lack of significant new funding sources at a scale required to preserve large numbers of rental homes.

Now that the recession has ended and all WOO investments have been made, these barriers continue for a number of reasons. Most of these, such as congressional commitment to housing, are outside the control of the MacArthur Foundation, but there are two barriers that the philanthropy could theoretically have helped to change in greater degree. First, although awareness of preservation has grown, a widespread understanding and motivating “story” for preservation—who should preserve affordable rental housing, why preserve, what is preservation, where should and should not rental homes be preserved—has not emerged. Closely related to this, serious data limitations still inhibit researchers' and practitioners' ability to accurately pinpoint the amount of preservation activity, which inhibits the ability to document

the scope of the problem and responses to it. Good comprehensive data could have potentially shown that preservation has broader scope and relevance than already known.

Nevertheless, the Window of Opportunity initiative had an impressively large scope, scale, and strategy. Much went right with the initiative, including how it was structured. The consideration of the entire “supply chain” of preservation and funding agents at all points in that chain was novel and permitted a more rapid increase in capacity than would otherwise have been possible. The early signaling by the foundation to a long-term commitment allowed organizations and their supporters to think beyond the specific real estate transactions at hand and consider longer-term strategies to reposition organizations for growth. Such thinking is essential in an environment such as housing, where change occurs over years and decades rather than months.

The foundation’s funding strategy, which relied on the combination of loans and grants, included several innovations relevant to other philanthropic organizations seeking to implement systems change. These characteristics of the philanthropic initiative helped raise the profile of, if not form a consensus policy motivation for, preservation. That the initiative is not likely to reach its goal to catalyze major preservation-related policy changes speaks to the limitation of a single philanthropic initiative targeting a massively large asset such as housing that is intimately connected to a national or global economy. To put it in context, the value of affordable housing in the United States is approximately \$2 trillion.⁷ For even a large philanthropic organization such as the MacArthur Foundation to make a dent in such a huge market is a noteworthy achievement.

As a final postscript, two important developments in 2015 could help reduce existing barriers to the preservation of affordable rental housing, by increasing awareness of the lack of affordable rental housing and potentially causing more funds to be devoted to its production and preservation. The revised version of HUD’s Affirmatively Furthering Fair Housing rule will potentially lead many communities to consider the availability of affordable rental housing locally and possibly work to provide more. Further, the U.S. Supreme Court’s ruling in the *Texas Department of Housing and Community Affairs v The Inclusive Communities Project* will cause states to pay closer attention to the geographic distribution of its affordable rental units, with the result likely being the provision of more units in low-poverty neighborhoods. These two policy changes may increase politicians’ and planners’ attention to affordable rental housing, which in turn will raise the profile of preservation as at least one cost-effective means to retain affordability.

Regardless of how those two particular policies are implemented, preservation will likely continue to evolve in a way that broadens its definition. The likely targets of preservation will probably more frequently include unsubsidized rather than only subsidized rental housing. In so doing, the targeted incomes of families served may likely go higher than the incomes subsidized rental housing typically targets. Among nonprofits, if not among for-profits, the actors doing preservation work will likely continue to grow into larger, more sophisticated owners with a more diversified real estate portfolio that includes housing across larger geographic regions rather than the older model of single-neighborhood or single-city CDCs. This more business-oriented approach to preservation has the potential to preserve affordable rental homes at a larger scale, assuming that the amount of public subsidy for rentals remains rela-

⁷ This assumes that each affordable unit in the United States has an average value of around \$90,000.

tively fixed. But if this approach fails to grow the total capital for affordable rental housing, it could be a zero-sum game where limited resources are diverted from, rather than augmenting, new subsidized rental housing for lower-income families.

Lessons for MacArthur and Other Philanthropies

Through our review of WOO and its outcomes, we conclude with six lessons for philanthropies as they consider the design of future initiatives.

Lesson 1. The sandwich model of funding actors working at multiple levels, from the local up to national, can be mutually reinforcing.

Experts familiar with WOO talked about it as a holistic “system.” They stressed the importance of the combined top-down and bottom-up investments in preservation transactions, in policy work, in building up data, and in creating networks of nonprofit preservation owners. As one person told us, you cannot “change policy without data and then without the practitioners to demonstrate the effectiveness of the policies. . . . You can’t use the data in isolation. You have to be able to see the impact of the funding on the street.” Investments in one activity reinforced or enabled the activities of others.

Lesson 2. The public commitment to long-term investing in the topic enhanced its effectiveness.

At least 15 individuals we interviewed commented on the importance of a “rather narrow and focused effort” that went deep into the technicalities of a policy problem for a long period of time. This stood in sharp contrast to the “short attention spans” of other foundations (interviewees suggested the maximum was about four years). WOO was essential for its grantees not only because of the signal the philanthropic initiative sent to policymakers but also because it provided the time needed for WOO recipients to build capacity and to innovate. Knowing that the MacArthur Foundation was going to “stick with it” allowed organizations to undertake long-term plans, react to what they learned along the way, and improve their efforts. The MacArthur Foundation announcing up-front as it did that it was committing to a decade-long initiative gave investors and grantees the ability to act with confidence and form longer-term plans and institutionalize practices.

Lesson 3. The philanthropic initiative signaled the credibility and importance of the topic, which enabled practitioners to accelerate and expand their work.

In selecting a low-visibility and poorly understood niche of affordable housing, the MacArthur Foundation sent a powerful signal in launching Window of Opportunity that boosted the salience of the topic. The existence of an entire philanthropic strategy devoted to preservation of affordable rental housing flagged to outside investors and policymakers that it was a topic worthy of policy attention. That increased salience “greased the wheels” of preservation by accelerating changes that were already taking shape. The acceleration derived from the “seal of approval” of a grant or loan from the MacArthur Foundation, since WOO beneficiaries could raise additional funds on it. The designated beneficiaries of WOO were accorded an advantage that helped to attract outside dollars.

Also, in selecting a relatively narrow segment of housing policy, the MacArthur Foundation was able to saturate and thereby influence at least the ecosystem comprised of nonprofit affordable rental housing preservationists. Notably, the foundation achieved those goals that it set that pertained to this set of actors.

Lesson 4. Subject-area expertise among foundation staff enhanced WOO's effectiveness.

Several interviewees made the point that the MacArthur Foundation was good at “picking the [right] bet,” whether through PRIs or grants. This ability was premised on program officers’ knowledge of preservation actors and technical knowledge about real estate finance and affordable housing policy. The initiative also benefited from the years of experience within the foundation of issuing PRIs. As one interviewee noted, the key was having program officers and directors “learning enough of the landscape to really have a well-informed opinion of what was likely to be important and you know what ideas were worth investing in.” Another effect of this knowledge was, as a former MacArthur Foundation staff person explained, to “right-size the [significant] amount of money we’d have to put in.” MacArthur Foundation staff became deeply embedded within the field and talked frequently with grantees and borrowers.

Lesson 5. It is important to formulate objectives that are measurable and align to the philanthropic initiative.

The MacArthur Foundation had few metrics to assess whether it was on track to meet its ultimate goals. There were four main reasons for this. The first relates to the design of the WOO initiative; the MacArthur Foundation did not allocate investments in a manner that would allow it or others to compare preservation activity among the set of recipients (e.g., states, developers, advocates) relative to a comparable set of nonrecipients to test whether the MacArthur Foundation’s investments were boosting preservation. The second challenge was that a number of the MacArthur Foundation’s goal statements were both difficult to measure (e.g., “improving the policy space for preservation”) and pertained to preservation at large, which far exceeded the scope of WOO, since the philanthropic initiative focused on a relatively small segment (nonprofit owners of primarily subsidized, multifamily rental housing) of the overall affordable housing profile, which includes both single and multifamily buildings as well as unsubsidized and subsidized rental housing. A third challenge was the relatively low priority accorded by the MacArthur Foundation to measuring itself and tracking its and its grantees and borrowers’ progress toward goals. A fourth challenge is the continued lack of data to measure preservation activity and resources to quantify changes over time. The four challenges, in combination, prevented the foundation from knowing empirically along the way whether it was on track to meet its goals.

Lesson 6. Competitive solicitations can be an effective means to raise awareness of an under-recognized problem or potential solution, and they can spur innovation.

While issuing competitive solicitations, such as requests for proposals, imposes costs on a foundation to vet the applications and make selections, in the case of Window of Opportunity, it was an effective way for the foundation to learn about the field. Moreover, it was a way to encourage nonprofit developers/owners and state agencies to either enter preservation or else accelerate or expand their preservation activity. In short, the requests for proposals and RFQs served a field-building function by creating a cohort of funded grantees, which helped to brand a segment of the industry. It also helped the MacArthur Foundation leverage its investment by encouraging new ideas and upfront investment by applicants.

Methods for the Evaluation of Window of Opportunity

In this appendix, we describe the methods used in this study. There are four sections in this appendix:

- Analysis of National Demand for and Supply of Affordable Rental Housing
- Document Review and Interviews of MacArthur Staff and Consultants
- Interviews of Experts
- Selection of Case Studies.

Analysis of National Demand for and Supply of Affordable Rental Housing

In Chapters Two and Six, we examined how the demand for and supply of rental housing in general and of affordable rental housing in particular changed from 1990 to 1999 and from 2000 to 2012, respectively. We also examined how the market share of affordable housing changed over these periods. To address these issues, we used the methods described below. Since the point of these analyses is to understand affordability of rental housing broadly, we included multi- (5+ units) and single-family (1–4-unit) dwellings even though WOO as an initiative largely but not exclusively focused on the preservation of multifamily rental housing.

Documenting How the Composition of the Renter Population Has Changed

We first described how the composition of the renter population has changed in terms of demographic shifts, with a focus on marital status, household size, age, income, education, and race and ethnicity. For this analysis, we used Public Use Microdata Sample (PUMS) data from the 2011 American Community Survey (ACS) and the 1990 Census (U.S. Census Bureau, 2016), as organized by the Integrated Public Use Microdata Series (IPUMS) project (Ruggles et al., 2015). The ACS and Census data provide household-level data based on samples of at least 1 percent of the U.S. population. The IPUMS is a series of data compiled by the University of Minnesota that allows us to follow the evolution of metropolitan area characteristics, keeping boundaries constant.

We looked at homeownership by marital status, race/ethnicity, level of education, and age. Specifically, we performed tabulations of homeownership rates for each of these demographic and economic groups; the foundation for the tabulation was the microdata.

Documenting How Rents, Income, and the Rent-to-Income Ratio Changed Across the United States

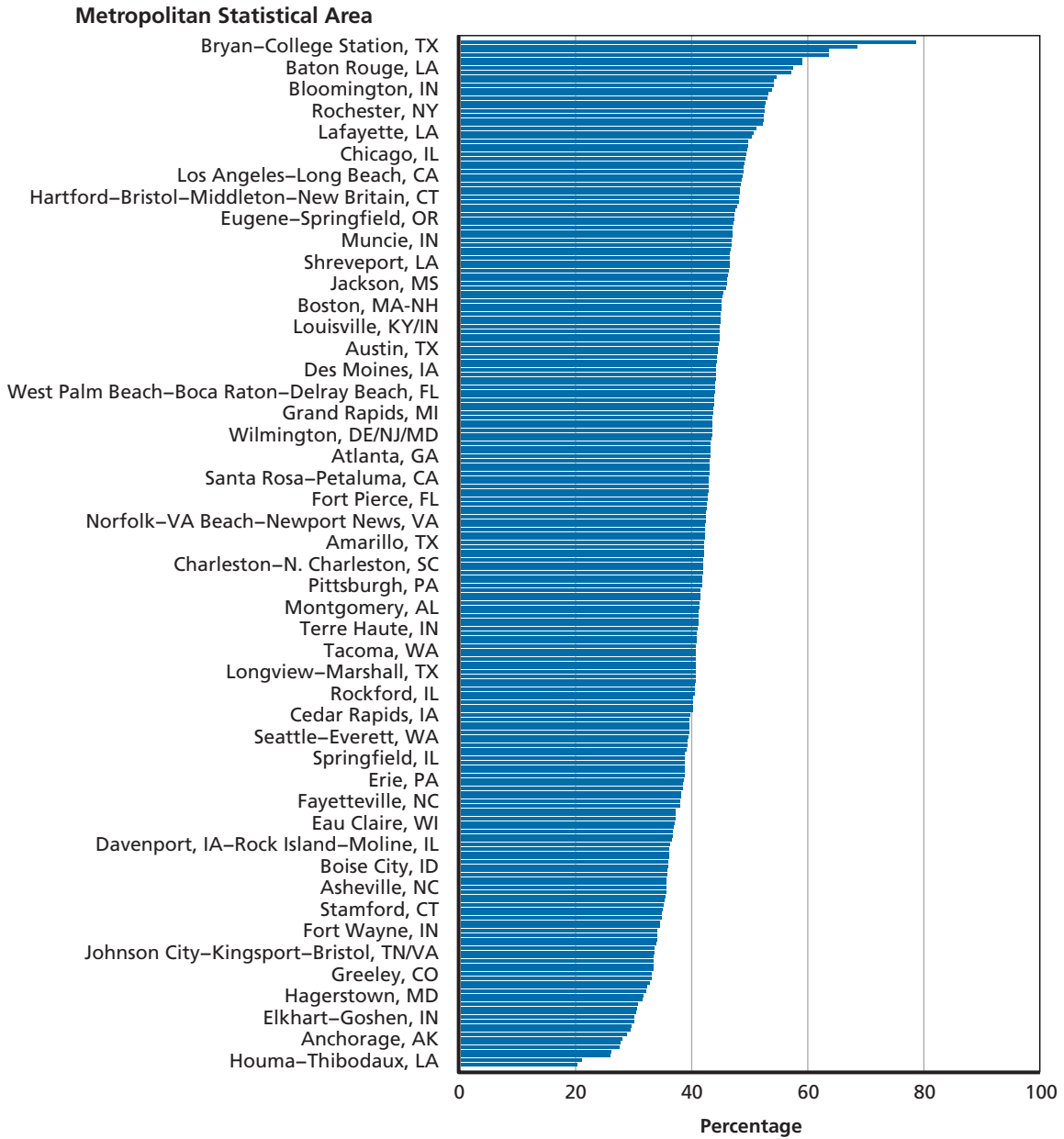
We also documented how rents have changed by MSA across the 20th, 40th, 60th, and 80th percentiles of the rental distribution. We use data from two sources to conduct this exercise. The 1990 and 2000 data come from the IPUMS 5 percent samples of the U.S. Census (Ruggles et al., 2015). The PUMS has the virtue of defining the geographical boundaries of MSAs consistently over the entire time period. We focused on the 238 largest MSAs. The 2011 data are from the IPUMS ACS three-year sample and reflect samples taken in 2010, 2011, and 2012 (Ruggles et al., 2015). The ACS sends surveys to approximately 295,000 addresses monthly (or 3.5 million per year) (U.S. Census Bureau, no date-a).

As with rents, we documented how incomes among renters have changed by MSAs across the renter income distribution (i.e., the 20th, 40th, 60th, and 80th percentiles of the income distribution). We again used IPUMS data from the 1990 and 2000 Census and the 2011 ACS three-year sample to determine incomes at each of these percentiles.

We then documented how the supply of affordable housing units changed between (1) 1990 and 2000 and (2) 2000 and 2011. The most common metric for determining housing affordability is the rent-to-income ratio, which is typically computed as the median (or average) income divided by the median or (average) rent for a geographic location. The rent-to-income ratio is a measure of the extent to which rent is a burden on income. However, this approach, while valuable, has at least two limitations. First, it is not clear that 30 percent is the correct threshold for “affordability”: For those with low incomes, 30 percent might be a burdensome share. Second, for those with more moderate incomes, 30 percent might not be particularly burdensome, and might reflect choice: Some people would rather spend money on housing than other goods.

Our performance metric therefore was to use the rent-to-income ratio that would prevail if a household lived in a rental unit that represented its perfect distributional match. With this approach, we are notionally placing households in units according to need—the household with the lowest income is matched with the unit having the lowest rent, the household with the second-lowest income is matched with the unit having the second-lowest rent, and so forth, until we reach the 20th, 40th, 60th, and 80th percentiles. Consider a household with income at the 20th percentile of the income distribution. The perfect distributional match for this household would be a rental unit at the 20th percentile of the rent distribution. Our metric would then be the rent-to-income ratio for this household if the household lived in this unit. Using this method, we calculated two measures: the rent-to-income ratio at a given percentile point between 1990 and 2000 (for Chapter Two), and between 2000 and 2011 (for Chapter Six), and the change in the rent-to-income ratio at those percentiles. This provided a picture of both the prevailing market conditions and trends in MSAs across the country. Figures A.1–A.12 are the rent-to-income ratio graphs for the 20th, 40th, 60th, and 80th percentiles in 1990 and 2000 and 2011 as discussed in Chapters Two and Six.

Figure A.1
Rent-to-Income Ratio for the 20th Percentile in 1990

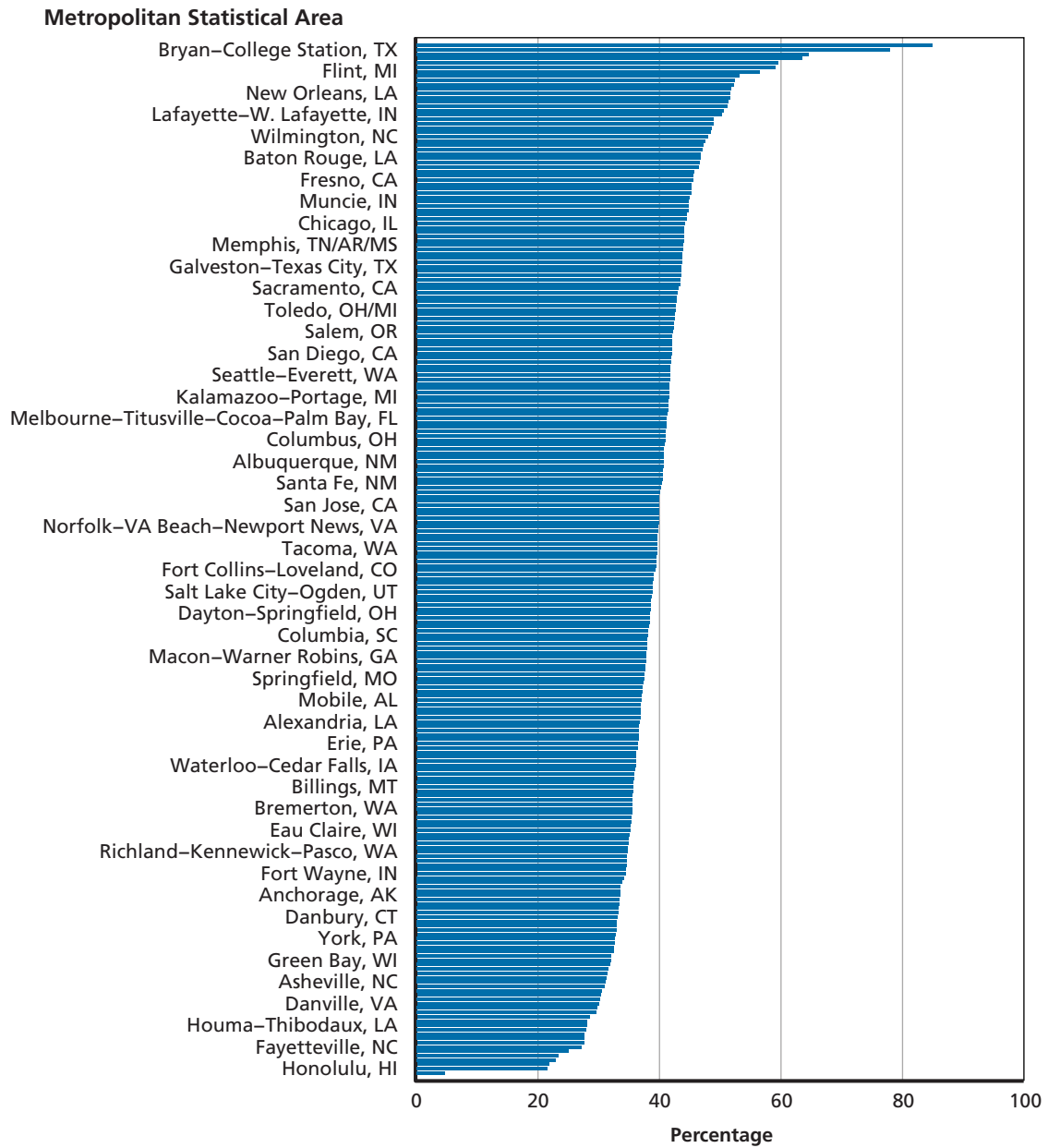


SOURCE: IPUMS Census 1990 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 20th percentile gross rent to 20th percentile income in 1990.

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Figure A.2
Rent-to-Income Ratio for the 20th Percentile in 2000

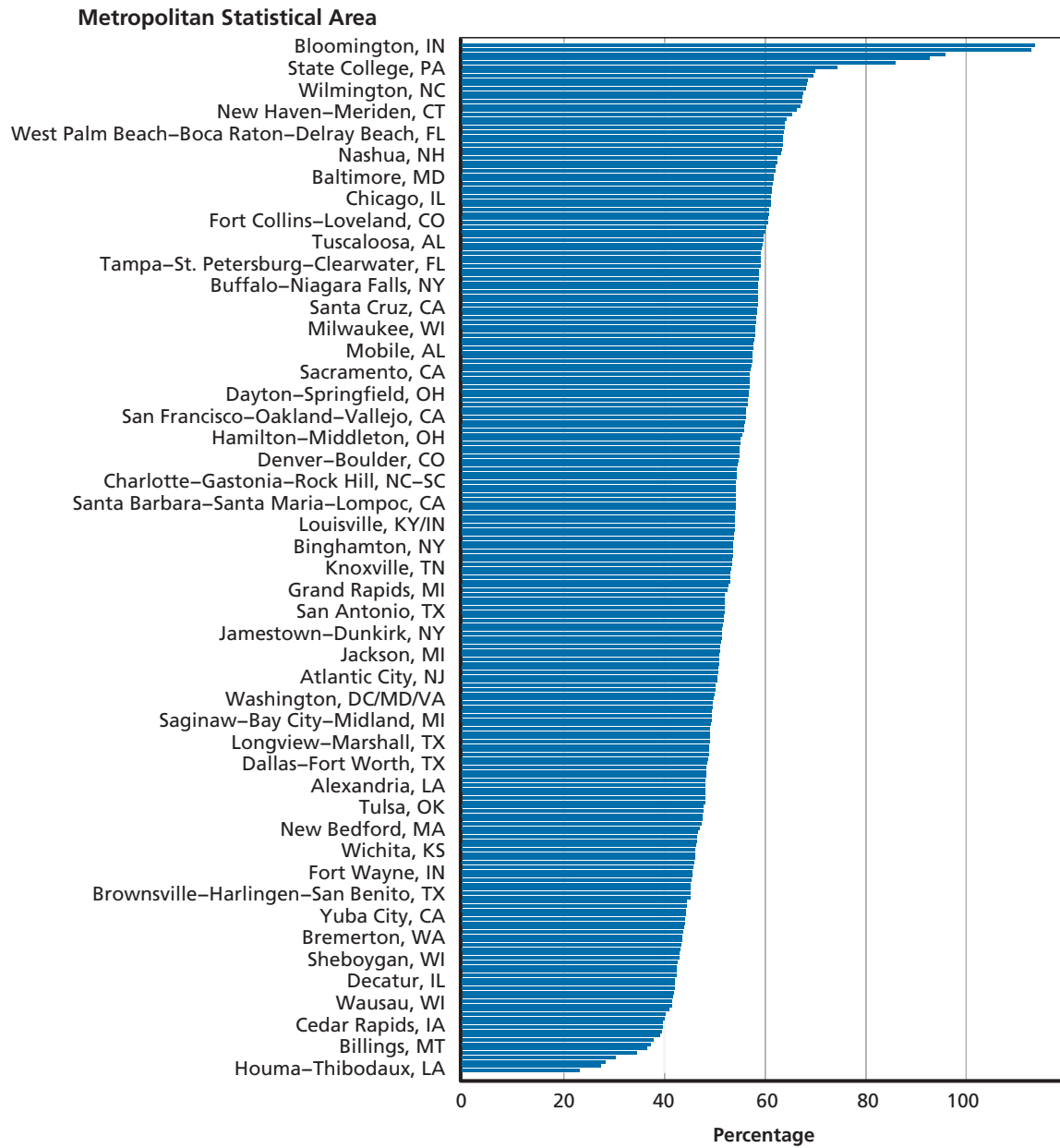


SOURCE: IPUMS Census 1990 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 20th percentile gross rent to 20th percentile income in 2000.

RAND RR1444-A.2

Figure A.3
Rent-to-Income Ratio for the 20th Percentile in 2011

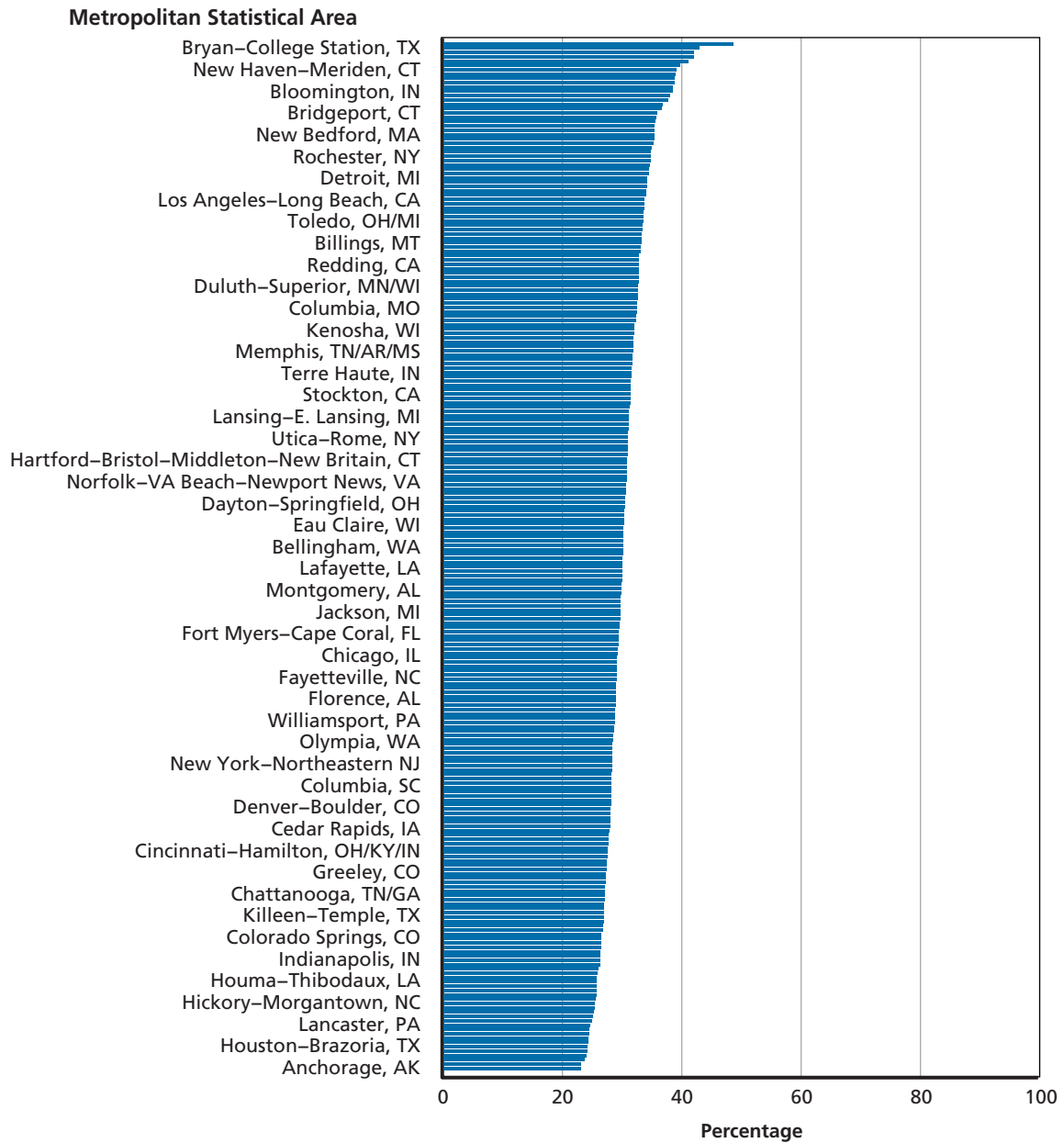


SOURCE: IPUMS 2011 ACS three-year data (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 20th percentile gross rent to 20th percentile income in 2011.

RAND RR1444–A.3

Figure A.4
Rent-to-Income Ratio for the 40th Percentile in 1990

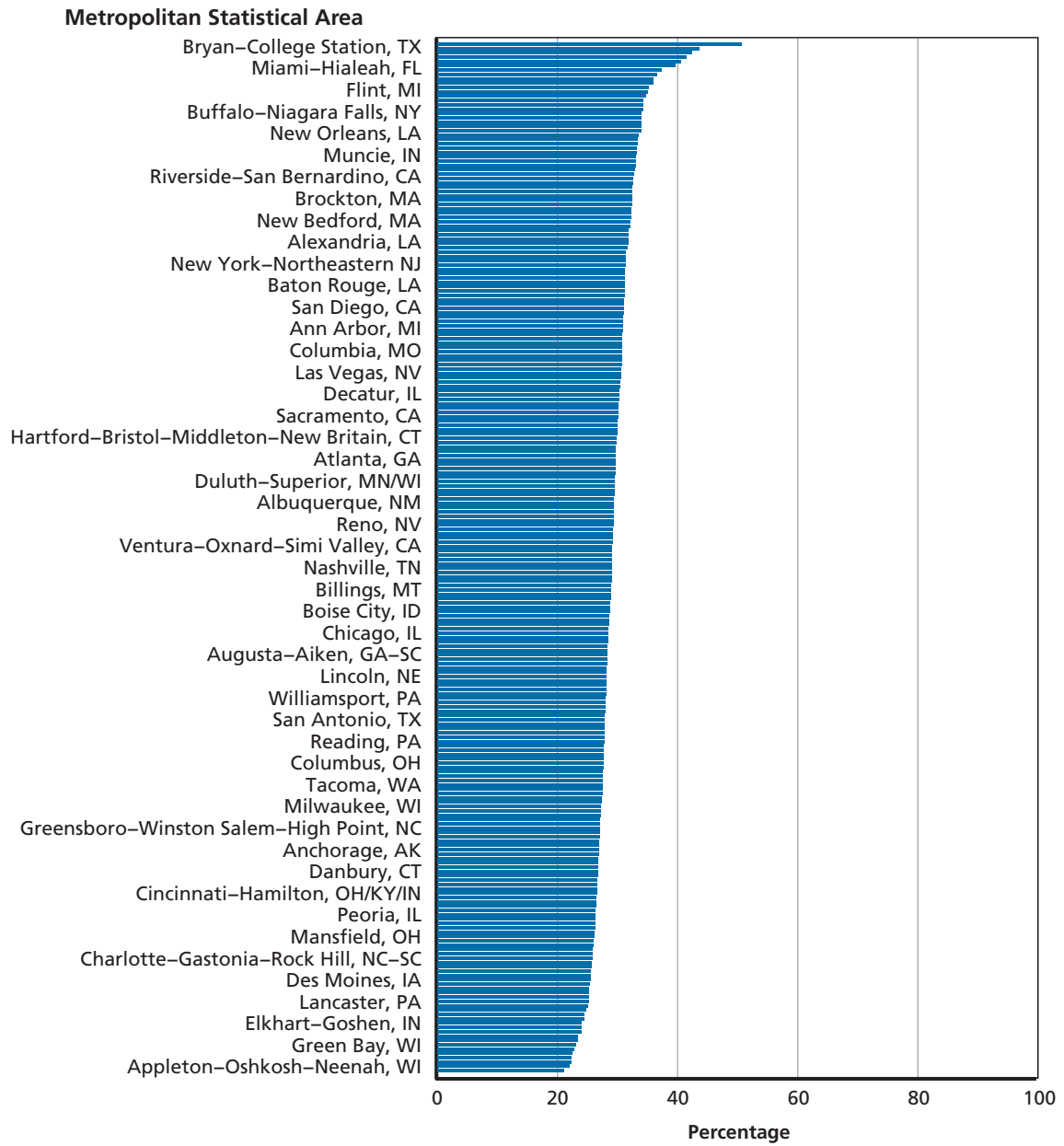


SOURCE: IPUMS Census 1990 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 40th percentile gross rent to 40th percentile income in 1990.

RAND RR1444-A.4

Figure A.5
Rent-to-Income Ratio for the 40th Percentile in 2000

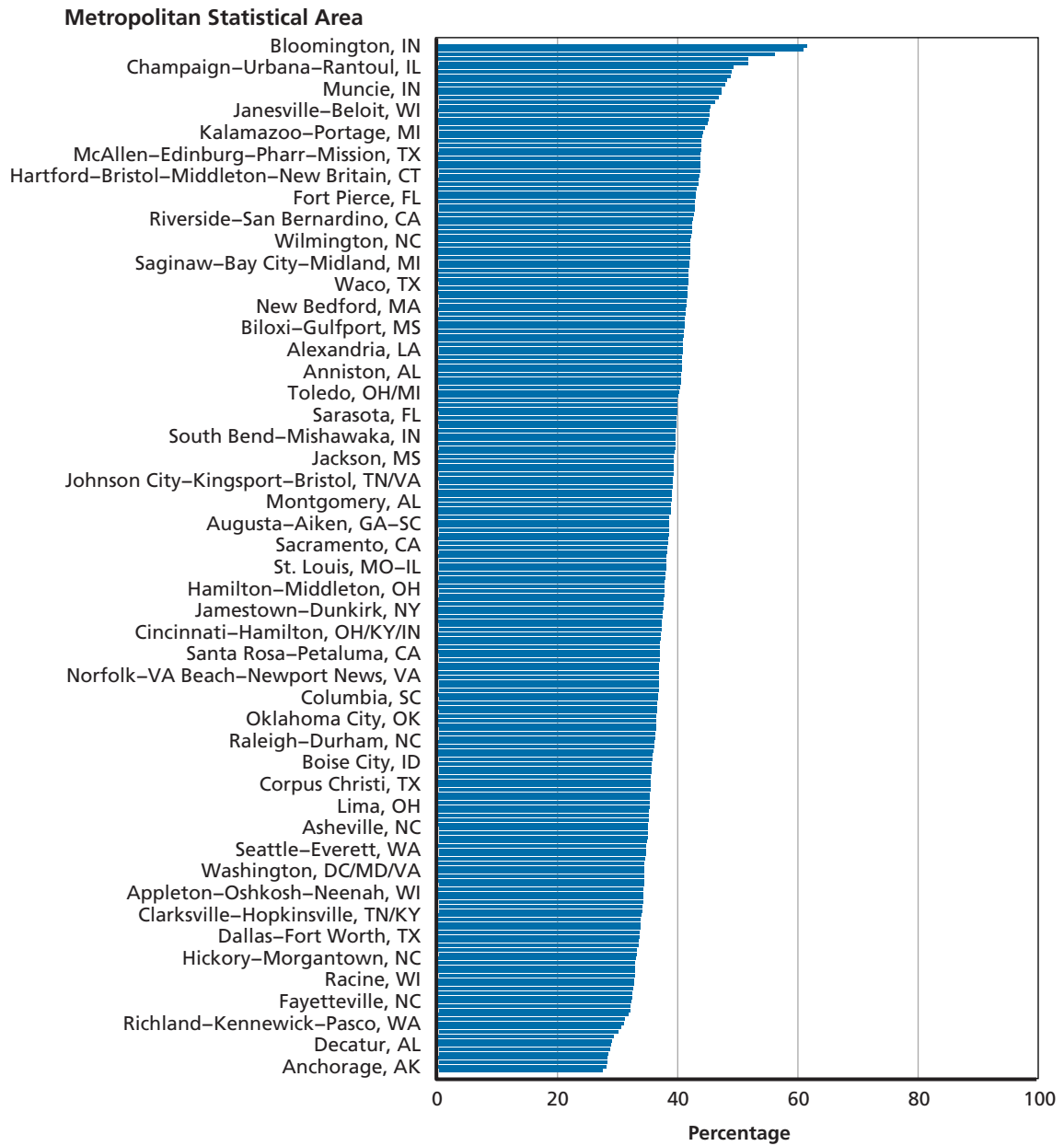


SOURCE: IPUMS Census 2000 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 40th percentile gross rent to 40th percentile income in 2000.

RAND RR1444–A.5

Figure A.6
Rent-to-Income Ratio for the 40th Percentile in 2011

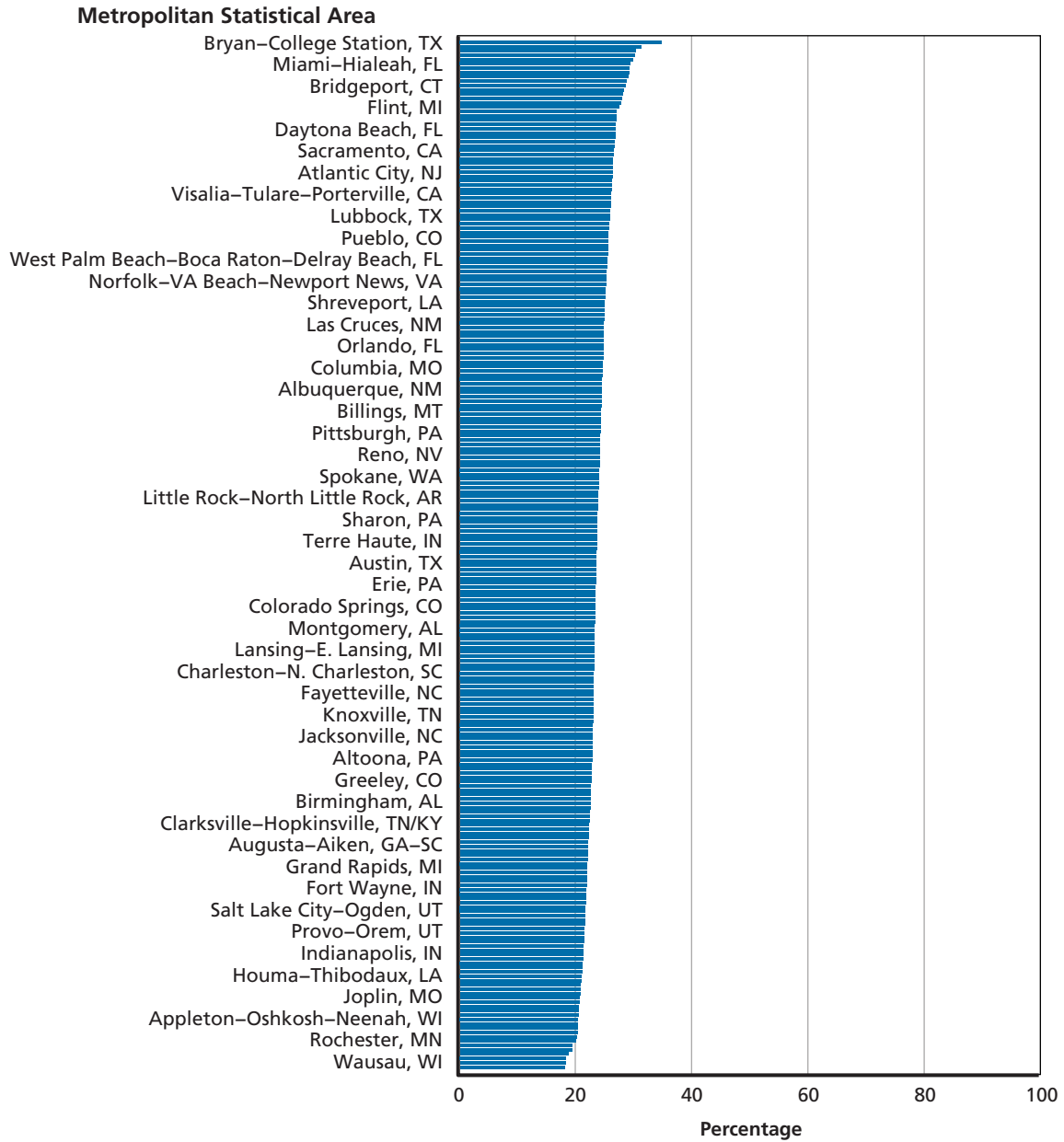


SOURCE: IPUMS 2011 ACS three-year data (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 40th percentile gross rent to 40th percentile income in 2011.

RAND RR1444–A.6

Figure A.7
Rent-to-Income Ratio for the 60th Percentile in 1990

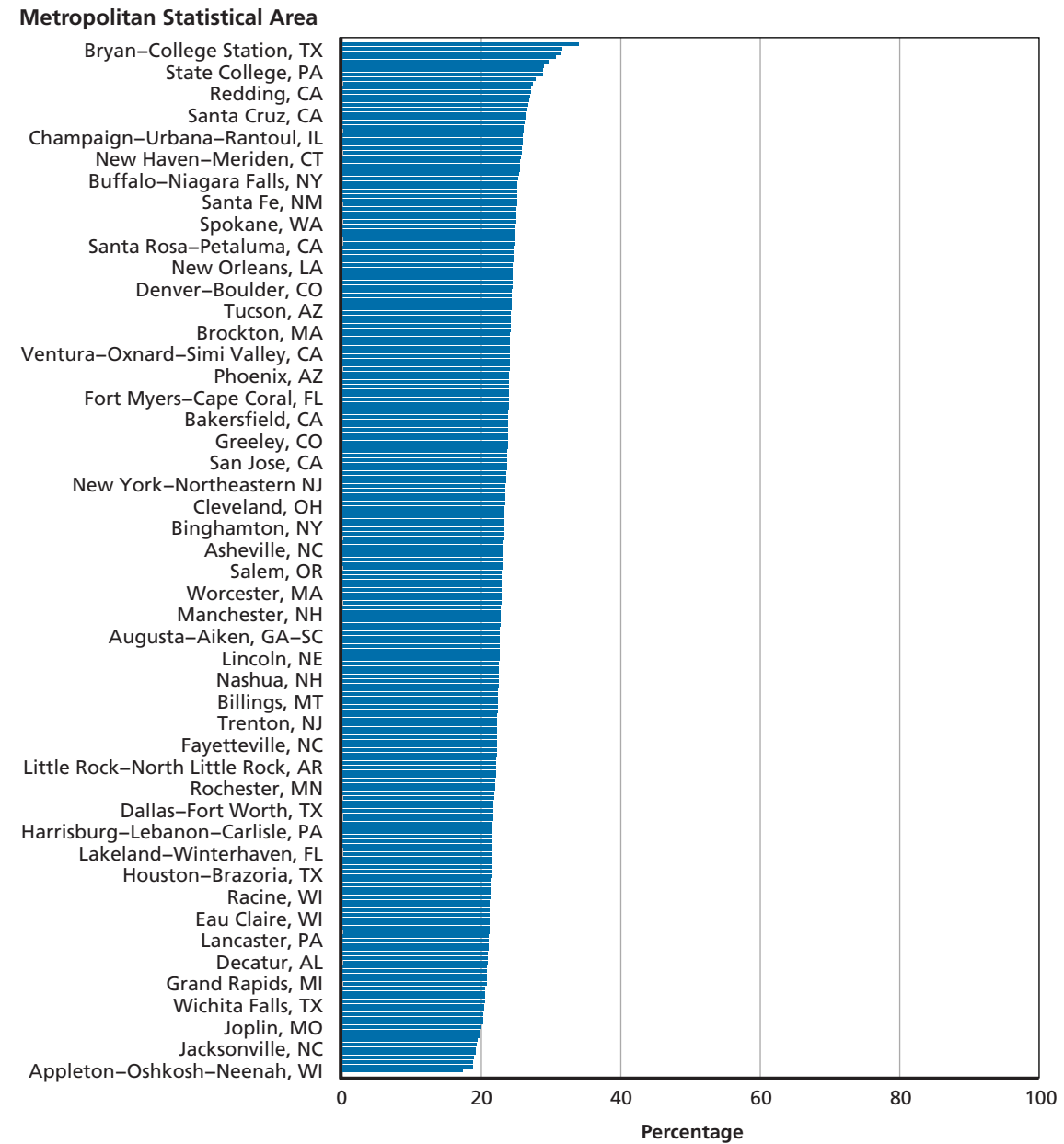


SOURCE: IPUMS Census 1990 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 60th percentile gross rent to 60th percentile income in 1990.

RAND RR1444–A.7

Figure A.8
Rent-to-Income Ratio for the 60th Percentile in 2000

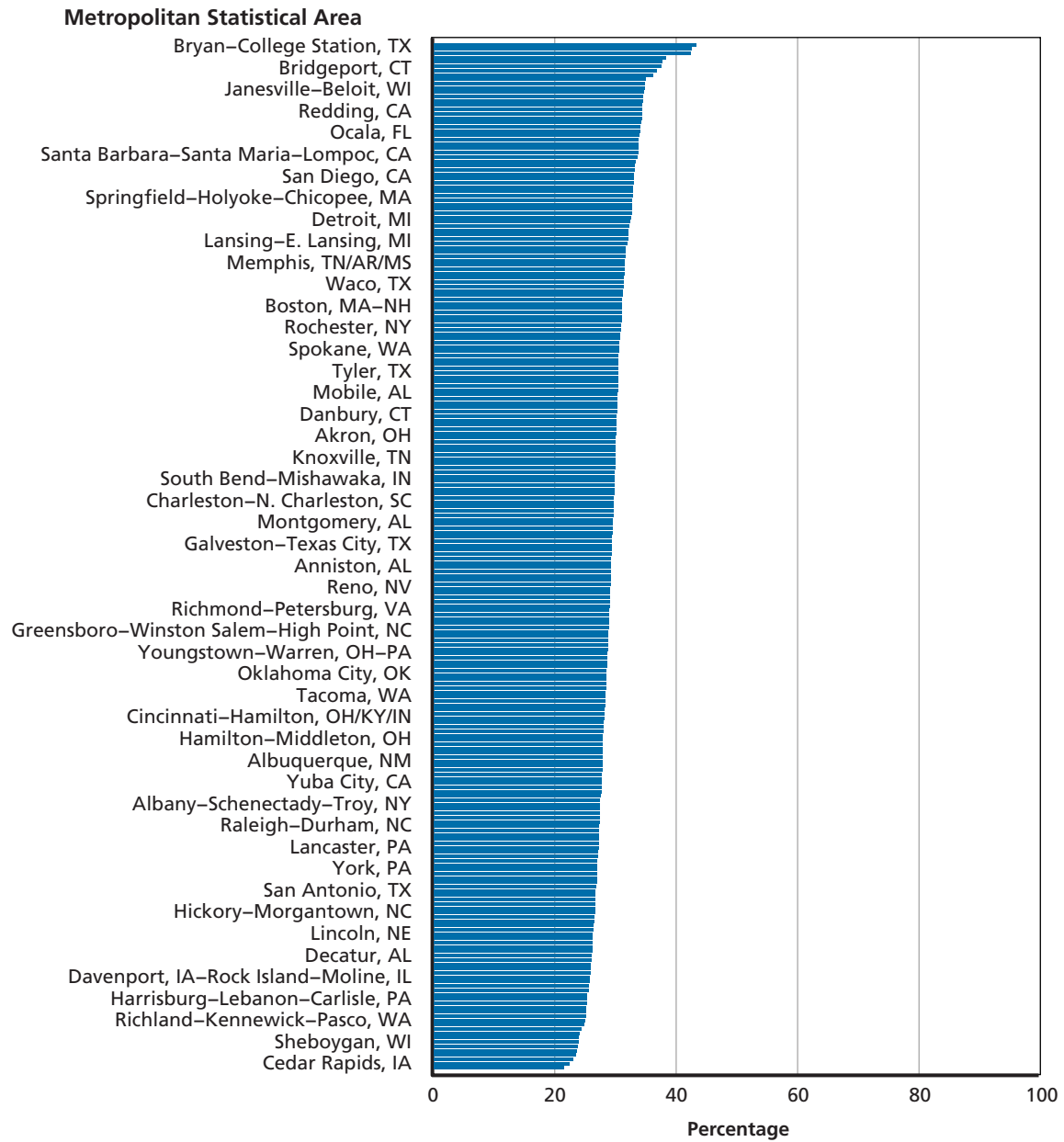


SOURCE: IPUMS Census 2000 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 60th percentile gross rent to 60th percentile income in 2000.

RAND RR1444–A.8

Figure A.9
Rent-to-Income Ratio for the 60th Percentile in 2011

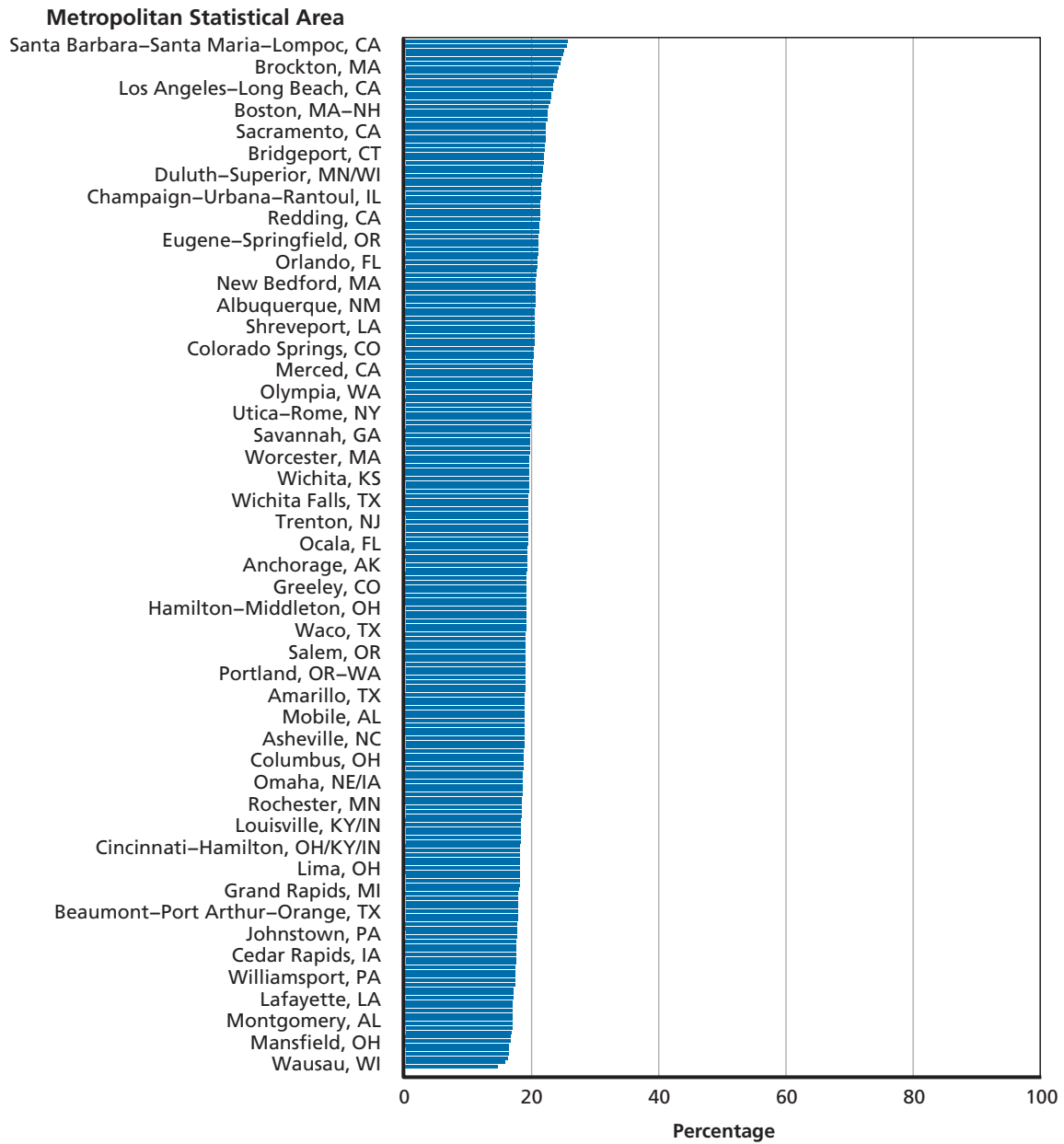


SOURCE: IPUMS 2011 ACS three-year data (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 60th percentile gross rent to 60th percentile income in 2011.

RAND RR1444–A.9

Figure A.10
Rent-to-Income Ratio for the 80th Percentile in 1990

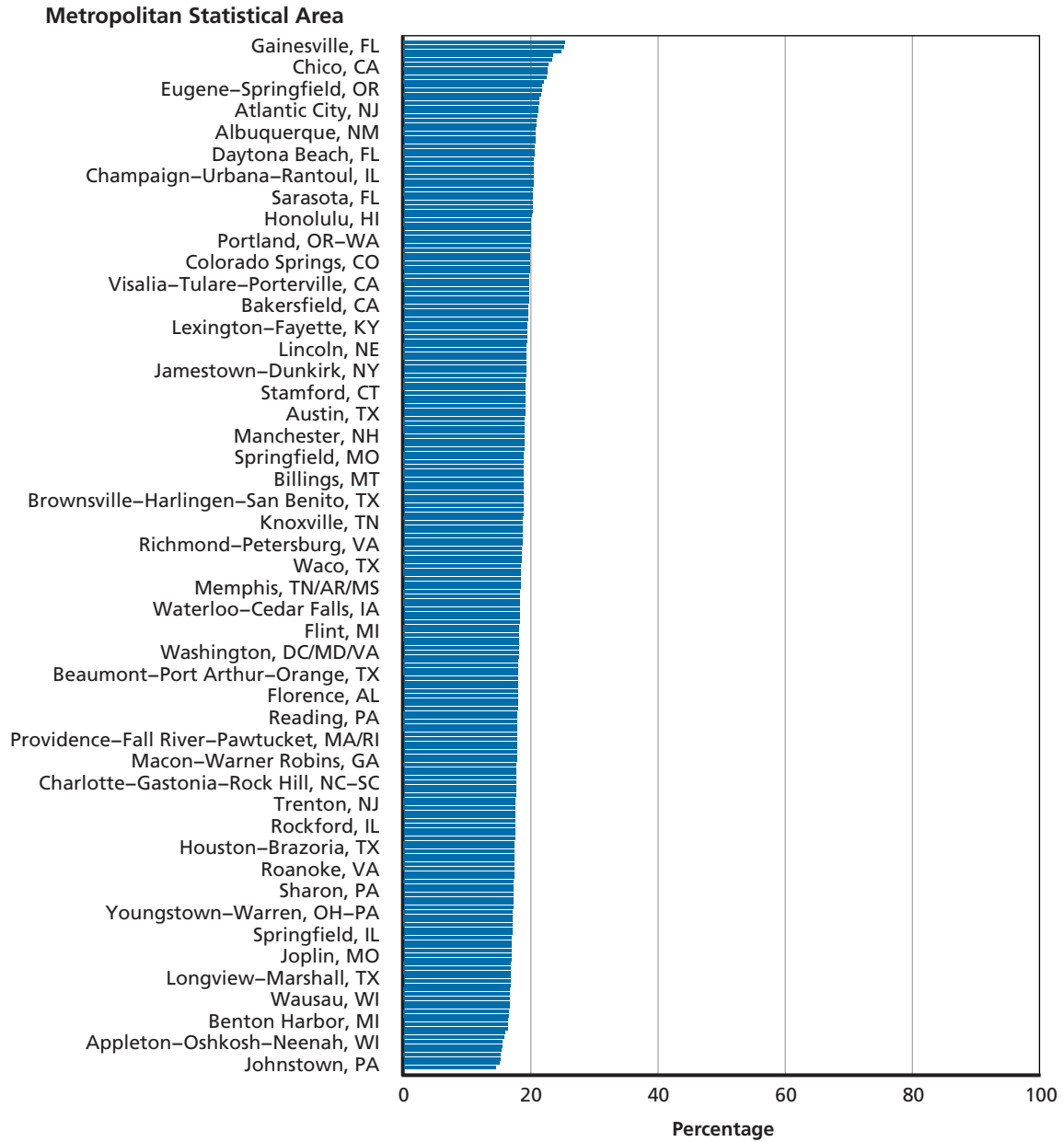


SOURCE: IPUMS Census 1990 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 80th percentile gross rent to 80th percentile income in 1990.

RAND RR1444-A.10

Figure A.11
Rent-to-Income Ratio for the 80th Percentile in 2000

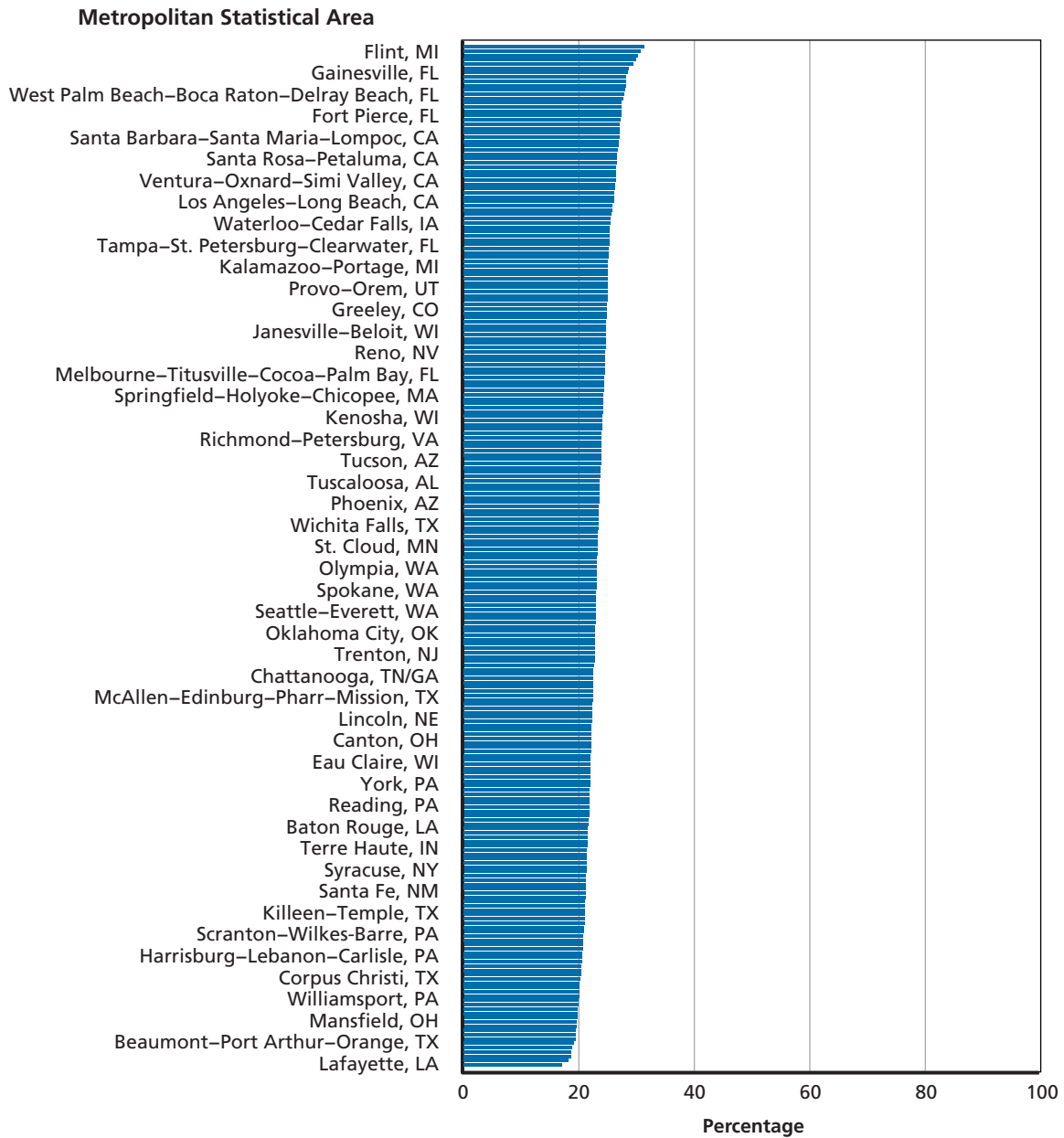


SOURCE: IPUMS Census 2000 5% sample (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 80th percentile gross rent to 80th percentile income in 2000.

RAND RR1444-A.11

Figure A.12
Rent-to-Income Ratio for the 80th Percentile in 2011



SOURCE: IPUMS 2011 ACS three-year data (Ruggles et al., 2015).

NOTE: Figure shows the ratio of 80th percentile gross rent to 80th percentile income in 2011.

RAND RR1444–A.12

Document Review and Interviews of MacArthur Staff and Consultants

Document Review

To gain a comprehensive understanding of the WOO initiative, we reviewed approximately 200 internal documents shared by the MacArthur Foundation. These documents ranged from individual grant reports and strategy memoranda to meeting agendas, brochure text, press releases, and summary documents for the MacArthur Board.

Using the information gained from this document review, we developed a timeline of key activities that took place preceding and during the WOO Initiative. This timeline included relevant major events in national policy, research, and practice that relate to affordable housing preservation; relevant major events in the housing industry and financial markets; and activities related to the development and evolution of the WOO Initiative. The timeline was used to inform our evaluation of WOO and to establish a context for our discussions with experts.

Interviews with Staff

From August to October 2014, we conducted ten interviews with current and former MacArthur staff and board members. The interviews were conducted using a written protocol and focused on the following areas:

- interviewee's role with respect to the MacArthur Foundation and to WOO
- impressions of the WOO initiative
- larger changes occurring in the field of affordable rental housing and how WOO fit into these changes
- key remaining challenges facing the field of affordable rental housing preservation.

All interviews were audio-recorded, and virtually all were subsequently transcribed. At the end of each interview, interviewees were asked to recommend any relevant documentation for the research team to review, such as grantee reports, briefings, internal memoranda, planning documents, and other relevant information that would help to understand the context and information they provided about WOO.

Interviews of Experts

In addition to the current or former MacArthur staff and board members whom we interviewed, we also interviewed a total of 73 additional experts from September to November 2014. The experts were selected in consultation with the MacArthur Foundation and worked in the following six areas: advocacy, policy, and field experts; researchers; developers; CDFIs and finance; public sector; and peer foundations and foundation consultants.

Each interview was conducted by one or two researchers, and all interviews were conducted by telephone. Most interviews were 60 minutes, and some lasted for up to 120 minutes. All interviews were audio-recorded, and most were subsequently transcribed. Individual protocols were developed for experts in each area. All interviews were asked about the following topic areas:

- interviewee's role with respect to the MacArthur Foundation's affordable rental housing preservation work
- larger changes occurring in the field of affordable rental housing and how MacArthur's affordable housing preservation work fits into these changes
- perceptions of different aspects of MacArthur's affordable rental housing preservation initiative
- key remaining challenges facing the field of affordable rental housing preservation.

In addition, interviewees who were WOO borrowers or grant recipients were asked about the effect of MacArthur's grants or loans on their organization. A list of interviewees by category is provided in Appendix B.

Interview transcripts were then thematically coded using codes that represented the major categories of the interview protocol (e.g., future of preservation, sources of funds for preservation, PRIs and grants, ease of preservation, etc.). Two researchers reviewed each of the transcripts to identify independently general themes. We then compared our individual reviews and reached agreement on the key themes that emerged. We used a cutting-and-sorting technique to identify specific themes and to identify individual quotes or expressions that summarized the key discussion points. We deemed interviewee observations as evidence when three or more individuals agreed on a theme. We sought to represent degrees of agreement across the interviewee population. All interviews were confidential. In this report, interviewee comments and opinions are not attributed to specific individuals unless permission was explicitly sought (as was done for the case studies).

Selection of Case Studies

We worked with the MacArthur Foundation to choose case studies that are emblematic of core activities within WOO: (1) seeding special-purpose vehicles, (2) expanding the reach of nonprofit owners through peer networks, (3) place-based investments in the "key cities" of Chicago and New York, and (4) the State and Local Housing Preservation Leaders initiative. Another factor influencing the selection of the case studies is the selection of activities that are potentially sustainable after philanthropic funding ends.

The case studies focus on the major mechanisms through which WOO operated. As shown in Table 3.1, the largest single investment the MacArthur Foundation made (\$76 million of the \$187 million in total loans and grants) was to financial intermediaries and special-purpose vehicles. This first case study is about one of these special-purpose vehicles, HEPT. Many interviewees also called out HEPT as a one-of-its-kind mechanism to finance the acquisition and recapitalization of naturally occurring affordable housing, which makes up the majority of affordable rental housing.

Peer networks of nonprofit preservation owners are the subject of the second case study. As shown in the column headings of Figure 3.1, peer networks were one of five grant recipient types in the WOO initiative. In total, MacArthur issued 22 grants across three peer networks over the period of 2002–2014. The grants totaled \$5.9 million, which made up 11 percent of total WOO grants and 3 percent of all forms of WOO loans and grants combined. SAHF was one of these networks.

Peer networks such as SAHF illustrate one of the primary ways WOO sought to effect policy change. Namely, MacArthur invested in networks comprised of nonprofit owners of affordable rental housing (and, in the case of Housing Partnership Network, investors) to promote knowledge sharing and the transfer of innovations in preservation transactions. The networks were also a means by which practitioners could identify cross-cutting policy challenges in order to advocate for funding and policy changes at the state and federal levels that could ease preservation.

TPC is the subject of the third case study. This case study focuses on the coordination and collaboration of the public, private, and nonprofit sectors to address the complex set of issues facing the preservation of affordable rental housing in Cook County. TPC contains at least three activities that have high salience to the future of preservation: interagency functions, energy efficiency, and engaging small owners of unsubsidized housing. TPC was started in 2007 and continues to be an important organization for addressing preservation issues in Cook County. In addition to grants supporting the establishment and coordination of TPC and participation in it, the MacArthur Foundation has funded between 2006 and 2013 five PRIs totaling \$186,000,000 to establish a new fund dedicated to preserving and improving distressed rental properties serving low-income Chicago residents, to support and increase the lending capacity of the Energy Savers Loan Fund, and to help fund loans made by the Preservation Compact Fund. In 2014, the MacArthur Foundation also made a \$5,000,000 PRI to help capitalize the new 1–4 Unit Rental Redevelopment Loan Program.

The fourth case study examines the State and Local Housing Preservation Leaders initiative. Launched in 2009, it has been called the “fund the funders” strategy, since the MacArthur Foundation awarded grants and PRIs to 12 states and localities, the primary sources of funding for preservation transactions. As described in Chapter Five, some experts familiar with Window of Opportunity felt this was the single most important initiative within WOO. Whereas the MacArthur Foundation had been investing in individual preservation owners, networks of owners, special-purpose vehicles, and advocacy organizations, the introduction in 2009 of the State and Local Housing Preservation Leaders initiative addressed public-sector and nonprofit agencies working at the critical state level, where low-income housing tax credit and state funds are allocated.

Case Study Interviews

We conducted interviews with representatives from SAHF, TPC, HPET investors and managers, and state and local grantees. The interviewees were selected based on their role and responsibilities and what aspects (e.g., planning, early development, specific programs) of a particular initiative, interagency council, or program they represented. We also drew on the earlier interviews we had conducted with preservation experts (see Chapter Four and Appendix B) to help round out the information gathered from the case study interviews and to provide additional context. For each case study, we provide details about the interviews conducted.

We used semistructured interview protocols with topics tailored to the specific focus of each case study to guide our discussions. For each case study, we summarize what topics were covered in each interview protocol.

Project team research staff conducted the interviews in pairs where possible, using the semistructured interview protocols that we tailored to each case study topic to help guide these discussions. As part of the oral consent, all interviewees were informed that they would be identified in the case study (whereas confidentiality was promised for interviews described

in Chapter Five), and they were also asked for permission to audio-record the interviews. All of the interviewees consented to having their interview audio-recorded. The audio-recordings were transcribed for use only by the research team for analytic purposes, and the transcripts were augmented by manual notes. The audio-recordings also were used to confirm interview statements and quotes.

In addition to the interview data, we also reviewed published documents specific to the individual case studies. For example, for the Cook County Preservation Compact, we reviewed the annual reports, website information on the Energy Savers Program, 1–4 Loan Program, as well as publications by the Institute for Housing Studies, summaries provided by MacArthur Foundation staff on the PRIs awarded as part of TPC, and unpublished summary information and data from CIC. These documents helped to further fill out the information learned from the interviews.

To analyze the interview data, we first reviewed the interview notes and transcripts to identify general and then specific themes and to identify where there was a consensus or differences in opinion. We also identified individual quotes or expressions that summarized the key themes that emerged from each set of discussions.

Below, we summarize the methods used for each of the case studies.

HPET Interviews

For this case study, we interviewed Thomas Bledsoe, CEO of HPET; Nancy Rase, CEO of Homes for America; Cindy Holler, president of Mercy Housing; and Ommeed Sathe, of Prudential Insurance Company. The final three were recommended by Bledsoe as representative investors and members. We also drew on previous interview transcripts in which other members of HPET or preservation finance experts or developers/owners had talked about the REIT, special-purpose vehicles more generally, or unsubsidized affordable rental housing. Information from the previous transcripts was used to provide additional background information for understanding the role of HPET and its activities. The specific interview protocol for this case study covered the following topics: (1) a timeline of HPET activities, (2) the six transactions HPET had closed on by the time of the interviews, (3) implications of the REIT for preservation owners, (4) the growth and replicability of HPET, and (5) lessons learned from HPET.

SAHF Interviews

For this case study, we conducted interviews with William (Bill) Kelly, Eileen Fitzgerald, and Thomas Slemmer. We selected the first two because they are current or former leaders of SAHF, and we interviewed Slemmer because we had not already spoken with him as a part of our broader set of preservation expert interviews. In that broader set, we had interviewed a majority of SAHF members. We also drew on previous interviews of our approximately 80 individuals in which we had asked questions about SAHF and peer networks of each interviewee. The specific interview protocol for this case study covered the following topics: (1) perceptions of the most significant accomplishments of SAHF, (2) whether SAHF enabled members to do things they otherwise could not have done, (3) the origin of SAHF, (4) the timeline and content of SAHF initiatives, (5) the influence (if any) of SAHF on federal policy, (6) the elements that made SAHF successful, (7) the future of SAHF, and (8) lessons learned from SAHF.

TPC Interviews

For this case study, we conducted interviews with representatives from key stakeholders that are part of TPC. We selected interviewees who lead TPC (Jack Markowski, president/CEO of

CIC and chair of TPC, and Stacie Young, director of TPC) or who play a key role in its organization and are a participant in TPC. These other interviewees included Lawrence Grisham, managing deputy commissioner, Chicago Department of Planning and Development; William Povalla, assistant commissioner, monitoring and compliance, City of Chicago Department of Planning and Development; Bryan Berg, City of Chicago Department of Planning and Development; Daniel Burke, U.S. Department of Housing and Urban Development and director, Illinois Multifamily HUB; and Anthony Smith, senior vice president and community development market manager for PNC Community Development Banking, member of the executive committee of CIC, and member of TPC. In addition, we drew on the previous interviews we had conducted with five preservation leaders (e.g., Anne Evens of Elevate Energy; Patrick Nash of JP Morgan Capital Corporation; Hal Keller of Ohio Capital Corporation for Housing; Edward Hinsberger, former director of the Multifamily Housing in Chicago's Regional HUD Office; and Julia Stasch of the MacArthur Foundation). Of the interviewees, six were members of TPC leadership committee (Evens, Burke, Markowski, Grisham, Nash, and Stasch).

The topics addressed in the protocol included (1) role and responsibilities of the interviewee and their involvement with TPC; (2) their perspective about the impetus for TPC and how its goals and strategies evolved over time; (3) views regarding how the interagency and intergovernmental and private sector partnership(s) functions work and how participation in TPC facilitated those working relationships; (4) how participation in TPC has changed, if any, how they work on preservation; (5) how the working groups are structured and examples of the process for the different issues being addressed; (6) the role of the MacArthur Foundation in establishing and supporting the work of TPC in general and for specific topic areas; (7) lessons learned from TPC that may help inform other jurisdictions; and (8) next steps for TPC and remaining challenges.

State and Local Housing Preservation Leaders Initiative Interviews

For this case study, we interviewed Robyn Bipes, director of programs and lending, Greater Minnesota Housing Fund; Anne Heitlinger, preservation manager, Minnesota Housing; Robert Prasch, preservation director, Network for Oregon Affordable Housing; Patrick Shea, multifamily emergency response coordinator, Oregon; Angela Skildum, multifamily policy and portfolio director, Family Housing Fund, Minnesota; Sean Thomas, chief of staff, Ohio Housing Finance Agency; Mary Tingerthal, commissioner, Minnesota Housing; William VanVliet, executive director, Network for Oregon Affordable Housing; and Jonathan Welty, vice president, Ohio Capital Corporation for Housing. We also drew on previous interview transcripts in which experts had talked about the initiative that helped provide additional context and background information about the initiative. The specific interview protocol for this case study covered the following topics: (1) database development and risk modeling; (2) inter-organizational groups; (3) commissioned research; (4) loan funds; (5) preservation guides for practitioners; (6) conferences, training, technical assistance, webpages about preservation; (7) outcomes of the grants in the areas of the QAP, units preservation, new funding sources, new guidance, and energy efficiency; and (8) lessons learned.

Experts Interviewed for Chapter Four Evaluation of Window of Opportunity

In addition to the interviews we conducted for the case studies (described in Appendix A), we interviewed a total of 83 people listed alphabetically (by last name) within each of the seven categories below. While many of the experts could reasonably fit into several categories, we list them in the one for which we primarily sought their perspective.

MacArthur Foundation

- Allison Clark, associate director of Impact Investments
- Jonathan Fanton, American Academy of Arts and Sciences (former president of the MacArthur Foundation)
- Jamie Gorelick, WilmerHale (former board member)
- Ianna Kachoris, program officer
- Will Miller, Wallace Foundation (former board member)
- Erika Poethig, Urban Institute (former MacArthur program officer)
- Debra Schwartz, director of Impact Investments
- Julia Stasch, president
- Michael Stegman, counselor to Secretary of the Treasury for Housing Finance Policy (former MacArthur Foundation staff)
- Mijo Vodopic, program officer

Advocates, Policy and Field Experts

- Joseph Belden, deputy executive director, Housing Assistance Council
- Thomas Bledsoe, CEO, Housing Partnership Network
- Michael Bodaken, president, National Housing Trust and National Housing Trust Enterprise Development Corporation
- Conrad Egan, board member, Community Preservation and Development Corporation (interviewed with Michael Pitchford)
- Anne Evens, CEO, Elevate Energy
- Francie Ferguson, director of the Multifamily Initiative, NeighborWorks

- James Grow, deputy director and senior staff attorney, National Housing Law Project
- William Kelly, former president, Stewards of Affordable Housing for the Future
- Marilyn Melkonian, president, Telesis; chair of the National Housing Trust Board
- Shekar Narasimhan, managing partner, Beekman Advisors
- Michael Pitchford, president and CEO, CPDC
- David Smith, chairman, Recap Advisors

Researchers

- William Apgar, senior research fellow, Joint Center for Housing Studies at Harvard University
- Ingrid Gould Ellen, New York University, Furman Center for Real Estate and Urban Policy
- William O'Dell, director, Shimberg Center for Housing Studies at the University of Florida
- Anne Ray, manager of the Florida Housing Data Clearinghouse, Shimberg Center for Housing Studies at the University of Florida
- Nicolas Retsinas, director emeritus, Joint Center for Housing Studies at Harvard University
- Alexander Von Hoffman, senior research fellow, Joint Center for Housing Studies at Harvard University
- Susan Woodward, chief economist at HUD and the U.S. Securities and Exchange Commission; founder and chairman, Sand Hill Econometrics, Inc.

Developers and Consultants to Developers

- Charles Allen, principal, Evergreen Partners, LLC, Wishcamper Group
- Amy Anthony, president and CEO, Preservation of Affordable Housing (POAH)
- Jeffrey Brodsky, president, Related Management
- Janaka Casper, president and CEO, Community Housing Partnership Corporation, Virginia
- Chrystal Kornegay, president and CEO, Urban Edge
- Linda Mandolini, president, Eden Housing
- Sister Lillian Murphy, retired president, Mercy Housing National
- Michelle Norris, president, National Church Residences
- Nancy Rase, president and CEO, Homes for America
- Lawrence Swanson, executive director, ACTION-Housing, Inc., Pittsburgh, Pennsylvania

CDFIs and Finance

- Nancy Andrews, president and CEO, Low Income Investment Fund
- Robin Bipes, director of programs and lending, Greater Minnesota Housing Fund
- James Bowman, president, National Affordable Housing Trust
- David Brickman, executive vice president, Multifamily Business, Freddie Mac
- Michael Devlin, managing director, Compass Advisors LLC, Board of National Affordable Housing Trust
- Joseph Hagan, president and CEO, National Equity Fund
- Warren Hanson, president and CEO, Greater Minnesota Housing Fund
- Scott Hoekman, senior vice president and chief credit officer, Enterprise Community Investment, Inc.
- Marc Jahr, former president, New York City Housing Development Corporation; consultant at Community Development Futures, LLC
- Charles Laven, president, Forsyth Street Advisors
- James Logue, chief operating officer, Great Lakes Capital
- John Markowski, president, CIC (interviewed with Stacie Young)
- Patrick Nash, managing director, JP Morgan Capital Corporation
- Daniel Nissenbaum, managing director, Goldman Sachs Urban Investment Group
- Vincent O'Donnell, senior advisor, Preservation of Affordable Housing (POAH)
- Robert Prasch, preservation director, Network for Oregon Affordable Housing
- Matthew Sheedy, director, Social Investment Program, MetLife, Inc.
- Todd Trehubenko, senior vice president, Multifamily Finance, Walker & Dunlop
- Stacie Young, director of TPC, CIC

Public Sector (current or former)

- Rafael Cestero, president and CEO, The Community Preservation Corporation and CPC Resources, Inc. (CPCR); Former Commissioner, New York City Housing and Preservation Department
- David Evans, former assistant executive director of multifamily housing, Pennsylvania Housing Finance Agency
- Matthew Franklin, president, Mid-Peninsula Housing
- Carol Galante, commissioner and former deputy assistant secretary for multifamily housing, Federal Housing Administration
- Aaron Gornstein, undersecretary, Massachusetts Department of Housing and Community Development
- Edward Hinsberger, retired director of Multifamily Housing in Chicago's Regional Office of HUD
- Hal Keller, president, Ohio Capital Corporation for Housing
- William Rumpf, president, Mercy Housing Northwest
- Pat Sylvester, Maryland Department of Housing and Community Development
- Mary Tingerthal, commissioner, Minnesota Housing Finance Agency
- Jon Welty, vice president, Ohio Capital Corporation for Housing

Peer Foundations and Foundation Consultants

- Cassandra Benjamin, CSB Consulting
- Xavier Briggs, vice president and director of Housing Program, Ford Foundation (interviewed with Lisa Davis)
- Lisa Davis, program officer, Ford Foundation
- Eileen Fitzgerald, former senior director of Fannie Mae Foundation; new director of SAHF, starting August 1, 2016
- John Goldstein, managing director, Imprint Capital Advisors
- Elisa Harrigan, Affordable Housing Initiative program officer, Meyer Memorial Trust
- Frederick Karnas, senior fellow, The Kresge Foundation
- Ellen Lazar, former senior vice president, Fannie Mae Foundation
- Sharon Magill, president, Jessie Ball duPont Fund
- Michael Parkhurst, Affordable Housing Initiative program officer, Meyer Memorial Trust (interviewed with Candy Solovjovs and Elisa Harrigan)
- Candace Solovjovs, director of programs, Meyer Memorial Trust
- Laura Trudeau, managing director, Community Development, Detroit, The Kresge Foundation
- Mary Vasys, Vasys Consulting Ltd.
- Barry Zigas, director of housing policy, Consumer Federation of America; former senior vice president, Fannie Mae

The Preservation Compact's List of Events (2009–2014)

Table C.1
The Preservation Compact's List of Events (2009–2014)

| Event Title | Purpose |
|---|--|
| Green Retrofit Program Workshop <i>May 2009</i> <i>(50 attendees)</i> | A workshop to market the Green Retrofit Program, a program created with federal government stimulus funds designed to have short application and approval timelines. |
| Weatherization Program Workshops <i>October 29, 2009</i> <i>(100 attendees)</i> | Interagency Council–organized workshop for multifamily owners to educate them about the Weatherization Program, which had received a substantial infusion of additional funds from the federal stimulus. |
| Owners Forum on Preservation Resources <i>November 19, 2009</i> <i>(200 attendees)</i> | The one-day forum included panels about new public resources, energy programs, multifamily finance, and best management practices. |
| Workshops for Public Agency Staff <i>May, June, July, 2010</i> <i>(75 attendees)</i> | Staff from government agencies attended three workshops over the summer of 2009 hosted by TPC and its Interagency Council to build capacity around energy retrofit funding resources, preservation-related funding resources, and challenges related to mixed-finance properties. |
| Energy Efficiency Showcase <i>February 8, 2012</i> <i>(92 attendees)</i> | Energy experts and housing stakeholders presented information to property owners and managers about the energy saving options available to them, including the Energy Savers program, Green Refinance Plus, ComEd's Multi-Family Home Energy Savings Program, and resources for tenants from Citizens Utility Board. |
| Preservation Forum: 2- to 4-Unit Properties <i>June 13, 2012</i> <i>(106 attendees)</i> | This forum included a panel discussion about the stock of 2- to 4-unit rental properties in Cook County, and the experiences of investors who own and manage small portfolios of these properties. |
| Preserving Assisted Properties Workshop <i>December 3–4, 2012</i> <i>(126 attendees)</i> | Owners and managers of assisted properties and staff of community housing development organizations (CHDOs) attended a workshop designed to help Cook County buildings with multiple funding sources tackle operating and monitoring challenges. Participants learned about improving building operations, navigating monitoring and compliance related to HOME, project-based vouchers, and other funding sources, and understanding strategies related to energy, property taxes, and bedbugs. |
| Conference: Rental Housing in the New Economy <i>July 18, 2013</i> <i>(250 attendees)</i> | More than 250 policymakers, experts, and housing stakeholders gathered for a day-long discussion about why preservation is an important strategy in a world where some rental markets boom while others struggle, credit is tight, and the future of housing subsidy is uncertain. |
| RAD Workshops <i>September 5, 2013</i> <i>(55 attendees)</i> | TPC hosted two workshops about the Rental Assistance Demonstration program (RAD), featuring a presentation from Will Lavy from HUD's national office. |

Table C.1—Continued

| Event Title | Purpose |
|--|---|
| Preserving Chicagoland's Small Multifamily Housing Stock <i>May 22, 2014</i> <i>(75 attendees)</i> | The forum examined the stock of 5–49-unit rental properties in the Chicago region. Panelists discussed lending and market trends, especially in low- and moderate-income communities, regulatory issues, public sector strategies and resources, and the aging buildings that provide homes to nearly one-third of Chicago's renters. |
| 1–4 Unit Rental Redevelopment Resources <i>November 6, 2014</i> <i>(75 attendees)</i> | TPC and several partners hosted a workshop to share resources available for investors who are redeveloping 1–4-unit rental properties. Presentations covered both acquisition-rehabilitation and takeout loan programs, the City's Micro Market Recovery Program, and a new property tax incentive for rehabbed 1–6 unit properties. |
| Preservation Resources Workshop <i>November 18, 2014</i> <i>(70 attendees)</i> | This workshop was designed for owners and managers of Project-Based Section 8 properties. Presentations covered financial resources that can help preserve HUD-assisted properties. |

SOURCE: Information provided by Stacie Young of CIC.

Abbreviations

| | |
|-------|--|
| ACS | American Community Survey |
| AHS | American Housing Survey |
| CDC | community development corporation |
| CDFI | community development financial institution |
| CEO | chief executive officer |
| CIC | Community Investment Corporation |
| FHA | Federal Housing Administration |
| HPET | Housing Partnership Equity Trust |
| HUD | U.S. Department of Housing and Urban Development |
| IHDA | Illinois Housing Development Authority |
| IPUMS | Integrated Public Use Microdata Series |
| LIHTC | Low Income Housing Tax Credit |
| MSA | metropolitan statistical area |
| PRI | program-related investment |
| PUMS | Public Use Microdata Sample |
| QAP | qualified allocation plan |
| REIT | real estate investment trust |
| RFQ | request for qualifications |
| SAHF | Stewards of Affordable Rental Housing for the Future |
| TPC | The Preservation Compact |
| URE | usual place of residence elsewhere |
| USDA | U.S. Department of Agriculture |
| WOO | Window of Opportunity Initiative |

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