CRA AT FORTY

# Preserving America's Affordable Rental Housing: The CRA Case

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Preserving affordable rental housing is critical to addressing America's housing affordability crisis and promoting economic opportunity. Preservation success depends upon policy innovation, mission and low-cost financing. Through the Community Reinvestment Act, banks can play an essential and profitable role in housing preservation.

## A GROWING GAP BETWEEN AFFORDABLE HOUSING NEEDS AND SUPPLY

Today, the nation faces a rental housing affordability crisis, as rent levels climb and incomes stagnate. In 2015, 26 percent of all renter households nationwide paid more than 50 percent of their incomes for housing. The lowest-income Americans face the most serious housing challenges. Excluding inadequate and unavailable units, there were only 35 affordable rentals for every 100 extremely low-income renters.[1]

In the United States, a person would have to earn $21.21 per hour and work 40 hours a week for 52 weeks a year to afford the average two-bedroom rent. This national average is almost three times the federal minimum wage.[2] Meanwhile, the loss of affordable multifamily rental units has resulted in fewer eligible households receiving housing assistance. Congressional funding for subsidizing rent for the lowest income families has not kept pace with the need. The number of very low-income renters increased from 18.5 to 19.2 million between 2013 and 2015, but the share receiving assistance declined from 25.7 percent to 24.9 percent.[3]

[1] The State of the Nation's Housing 2017, pages 31 and 35, Joint Center for Housing Studies at Harvard University (2017)

[2] Out of Reach 2017, pages 1-2, National Low Income Housing Coalition (2017)

[3] The State of the Nation's Housing 2017, page 35, Joint Center for Housing Studies at Harvard University (2017)

## EXISITING AFFORDABLE HOUSING IS AT RISK

In the context of declining subsidies and rising development costs and private market rents, preserving affordable housing has become more urgent than ever. As the Joint Center for Housing Studies at Harvard University reports, the existing stock of affordable housing is at risk. Between 2015 and 2025, 2.2 million privately owned, federally assisted apartments will lose their affordability restrictions, allowing property owners to convert their units to market rents.[4]

- Apartments subsidized with HUD's project-based rental assistance (PBRA) house over 1.2 million low-income households and are a critical source of affordable housing in many communities. PBRA properties are privately owned, with rents subsidized under federal contracts. Once those contracts expire, property owners can opt out and raise rents. Contracts on more than 380,000 PBRA units will expire over the next decade.[5]

- Nearly 60 percent of the rentals with expiring subsidies are Low-Income Housing Tax Credit (Housing Credit) units. These apartments can be retained as affordable if the property receives other subsidies with affordability restrictions or the owner obtains a new allocation of Housing Credits to fund capital improvements.[6] Units in low-poverty neighborhoods are at higher risk.[7]

- Privately owned, "naturally occurring affordable housing" (NOAH) is increasingly lost to renovations and subsequent rent increases in high-cost areas where demand for affordable housing is strong, but new construction is focused at the upper end of the market.
- The aging of the nation's public housing stock also is a concern, with more than half of the units built before 1970. The capital needs for this stock is a staggering $25 billion. Congress has recently provided funding and mechanisms to privatize this stock.

- There is also a need to preserve small multifamily rental housing. This older rental stock is more likely to be in poor condition.[8]

## PRESERVATION IS COST EFFECTIVE

Preservation is the obvious first step to address our nation's rental housing affordability crisis. For every new affordable apartment created, two are lost due to deterioration, abandonment or conversion to more expensive housing. Without preserving existing affordable housing, we fall two steps back for every step forward we take. In distressed neighborhoods, preserving affordable housing can spark the public-private investment needed to catalyze the revitalization of an entire community. Saving decent, affordable housing is also a cost-effective way to protect a critical community asset in rapidly gentrifying communities.

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[4] America's Rental Housing: Expanding Options for Diverse and Growing Demand, page 31, Joint Center for Housing Studies at Harvard University (2015)
[5] The State of the Nation's Housing 2017, pages 36, Joint Center for Housing Studies at Harvard University (2017)

[6] America's Rental Housing: Expanding Options for Diverse and Growing Demand, page 32, Joint Center for Housing Studies at Harvard University (2015)

[7] The State of the Nation's Housing 2017, pages 36, Joint Center for Housing Studies at Harvard University (2017)

[8] America's Rental Housing: Expanding Options for Diverse and Growing Demand, pages 14-15, Joint Center for Housing Studies at Harvard University (2015)

Preservation is significantly less expensive than constructing new affordable housing. Rehabilitating an affordable apartment can cost one-third less than building a new apartment. In more expensive communities with high land costs, the cost of building new affordable housing could be as much as double the cost of preserving existing housing. Preservation projects utilizing Housing Credits required 50 percent less Housing Credit equity per unit than new construction developments.

## HOW CAN BANKS SUPPORT AFFORDABLE HOUSING PRESERVATION THROUGH CRA?

Lenders play a critical role in affordable housing preservation, investing in local communities and earning CRA credit. For example:

**Sharing in predevelopment financing.** The most difficult aspect of pursuing preservation projects occurs in the predevelopment phase. To evaluate the financial feasibility of preservation plans, studies must be completed and professionals must be engaged. Often, nonprofit organizations do not have sufficient capital to engage in such predevelopment work.

Both financial institutions and nonprofit developers benefit if they share in this risk. Banks may agree to provide predevelopment dollars for a project, in exchange for a more substantial and/or longer-term participation in permanent future financing of the project. Lenders' more substantial roles may include direct purchase of tax-exempt bonds or Housing Credits, or provision of construction loans.

**Investing in intermediaries such as Community Development Financial Institutions (CDFIs).** Community development organizations also raise funds to finance predevelopment and interim development loans at below market rates to local nonprofit developers. Banks provide key investments to capitalize these funds, thereby earning CRA credit.

For example, the National Housing Trust Community Development Fund (NHTCDF) is a flexible source of predevelopment and interim development funds for mission-aligned development organizations working to purchase, rehabilitate and preserve affordable housing. NHTCDF has made over $36 million in loans in 28 states and the District of Columbia to preserve almost 12,000 homes. These loans have leveraged more than $1 billion in private and public financing to fund affordable housing preservation. NHTCDF recently launched a new product for energy retrofits and renewable energy.

**Purchasing Housing Credits from state and local housing agencies.** As Congress cuts affordable housing resources, rents rise, incomes stagnate and property owners opt to profit from market rate conversions, many states, cities and counties are increasing resources dedicated to affordable housing preservation and development. Nearly all states now prioritize preservation in their competitive Housing Credit Qualified Allocation Plans (QAPs). For instance, Michigan offers both a 25 percent set-aside of Housing Credits exclusively for preservation and points for projects involving the preservation of properties with existing subsidies. In contrast, Oregon offers a substantial amount of points for preservation activities, but no set-aside.

Recently, 48 percent of all Housing Credits allocated were deployed to preservation projects. Many banks purchase Housing Credits, which are used to acquire and renovate existing multifamily housing. The same lender that provides the bridge and take-out financing can acquire a property's Housing Credits. By purchasing Housing Credits from state and local housing agencies, banks can obtain CRA credit and support critical preservation activity. Multi-investor funds, which include community and regional banks as investors, are the investment vehicle of choice for Housing Credits.

Similarly, nearly all state housing trust funds support preservation activities and many funds prioritize them as preferred activities. Some cities and counties also dedicate tax revenues to affordable housing preservation. For more information on state and local preservation policies, visit NHT's preservation catalog at www.prezcat.org.

## SUPPORTING ENERGY EFFICIENCY INVESTMENTS

Banks may earn CRA credit for making loans to borrowers to finance renewable energy, energy-efficient or water conservation equipment or projects that support the development, rehabilitation, improvement or maintenance of affordable housing. The cost of energy is the largest operating expense in affordable multifamily housing. Energy efficient improvements enable owners to reduce operating expenses, allowing them to maintain affordable rents, reduce greenhouse gases and provide resident services. Federal financial regulators have recognized that loans enabling energy efficiency measures help reduce the cost of operating or maintaining affordable housing as CRA-eligible community development loans.

Loans to CDFIs that support energy efficiency initiatives should be considered community development loans. The central barrier to making more "green" loans is access to the low cost long-term capital needed to make them work.

Underwriting loans against energy savings requires making loans that fully amortize over 8-15 years. CDFIs generally do not have longer-term capital to support this kind of project. Banks providing long-term financing to support CDFI energy efficiency loans should receive CRA credit.

## CONCLUSION

As the nation confronts a rental housing affordability crisis, banks can help safeguard hundreds of thousands of affordable homes that serve as the foundation of vibrant communities while earning CRA credit. Bank resources should be harnessed to protect housing, which is critical to ensuring economic mobility and opportunity to those less fortunate in our society.

## ABOUT THE AUTHOR

**ELLEN LURIE HOFFMAN** joined the National Housing Trust in May 2014 as the Federal Policy Director. NHT is a national leader in preserving and improving affordable housing, ensuring that privately owned rental housing remains in our affordable housing stock and is sustainable over time. Prior to joining the Trust, Ms. Lurie Hoffman worked for the National Council of State Housing Agencies (NCSHA) for nine years, where she analyzed and advocated for federal multifamily housing policy issues on behalf of the nation's state Housing Finances Agencies (HFAs). Ms. Lurie Hoffman holds a Master in Public Policy degree from Harvard University's John F. Kennedy School of Government and a Bachelor of Arts degree in Political Science from Vassar College.

## ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.