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Grantmakers Supporting Community Change

PUBLIC POLICY PAPER

Neighborhood Funders Group

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Affordable Rental Housing and the American Dream: The Role for Foundations

By Cushing N. Dolbeare and Sharon S. McGowan

Mission

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

Public Policy Papers

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

Authors

Cushing Dolbeare is Senior Scholar at the Joint Center for Housing Studies at Harvard University, and research for this paper was conducted in conjunction with the Joint Center. She founded the National Low Income Housing Coalition (NLIHC) and ran the organization from 1977-1984 and 1993-1994, and is now chair emeritus. She currently sits on the Millennial Housing Commission, appointed by Congress and continues her life as a housing researcher, writer and advocate.

Sharon McGowan, co-author and editor, is a reporter and writer with 25 years of experience writing about public policy issues, including housing, education, welfare reform and race relations. She is president of Desktop Edit Shop, Inc., a desktop publishing company in Skokie, Ill.

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A Briefing Paper for the Neighborhood Funders Group

by

Cushing N. Dolbeare and Sharon S. McGowan

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Executive Summary

The rising cost and decreasing availability of affordable housing in this country is escalating and our commitment to providing safe, decent and affordable housing is weak. While most low-income renters are able to find adequate housing, they cannot afford to pay for it. More than 7.7 million renter households pay more than half their income for rent.

Renter households continue to make up one-third of the households in the United States, despite the emphasis now being placed on homeownership. Rental housing is often regarded as a lesser alternative to homeownership because it does not increase household assets. For young families, renting is often a short-term, but essential, stepping-stone to homeownership. However, well-maintained and well-managed rental housing can help families become self-sufficient, and ultimately build wealth. For many families, renting will remain a better financial decision and in some cases a preferred lifestyle option.

The lack of adequate resources is the chief obstacle to addressing the scale of rental housing needs. Housing is the only area of domestic policy that provides an entitlement to middle and upper income people, but no corresponding scale of assistance for the millions of very low-income renters now paying more than half their incomes for housing costs.

The housing challenges our country faces today are four-fold:

- Making housing affordable for low-income people
- Preserving and maintaining existing rental housing stock
- Producing new affordable housing
- Providing economic and social opportunities for low-income residents.

What can foundations do to begin addressing these issues? This paper provides examples of the work your colleagues –both large and small–around the country, are doing to influence housing-related policy and support low-income families. These strategies include supporting efforts to establish a national housing trust fund; providing services that enable residents to become self-sufficient; and working to change federal and state tax policies.

This is the second in a series of papers developed to assist grantmakers in better understanding the nature of affordable housing public policy issues and to encourage public and private investments in housing. The next paper in our series will focus on homelessness and its impact on communities.

Introduction

Access to decent affordable housing in healthy neighborhoods is a fundamental human need. New research suggests that housing is central to the ability of families to move from poverty to self-sufficiency. Affordable, stable housing makes it easier for adults to find and keep jobs, and improve the health and education of their children. It also contributes to strong communities by creating a positive environment for neighborhood residents and the surrounding region.

While foundations and the federal government have recently focused on homeownership as a strategy for addressing the housing needs of low-income families *(see box, below)*, the need for affordable housing cannot be addressed through homeownership alone. Rental housing remains a critical part of the U.S. housing mix. Nationwide, about one-third of all families—about 34 million households—reside in rental housing. It is especially important for those with the lowest income. Of families that earn less than $15,000 per year, about 30 percent (9.8 million) are renters. *(See Table 1.)*

For many people, rental housing for low-income households conjures up negative images of the nation's troubled public housing stock—properties constructed, financed and operated with direct government funding. In reality, this component of U.S. rental housing serves only 1.3 million households. The remaining 32.7 million low-income renter households live in private sector housing, the vast majority of which is unsubsidized.

Rental housing is often regarded as a lesser alternative to homeownership because it does not increase household assets. However, well-maintained and

"Housing is inextricably linked to access to jobs and healthy communities and the social behavior of the families who occupy it. The failure to achieve adequate housing leads to significant societal costs."

—"Why Housing Matters," the report of the Bipartisan Millennial Housing Commission, 2002

Defining "low income"

Unless otherwise specified, in this paper households are categorized as belonging to one of four income groups: $0-$14,999 (very low); $15,000-$29,999 (low); $30,000-$59,000 (moderate); $60,000 and above (high).

Other common approaches to categorizing people by income are as follows:

- **Relative to others living in the same region.** The Millennial Housing Commission defines income groups as: extremely low income (at or below 30 percent of area median income, or AMI); very low income (30.1 to 50 percent of AMI); low income (50.1 to 80 percent of AMI); lower income (at or below 80 percent of AMI); moderate income (80.1 to 120 percent of AMI); high income (above 120 percent of AMI).
- **Relative to the income of all U.S. households.** The Joint Center for Housing Studies of Harvard University divides households into five approximately equal quintiles: lowest; lower-middle; middle; higher-middle; and highest.
- **Relative to a family's size.** The federal government defines low income households as those below the "poverty line," which is adjusted each year.

Table 1—Renters and Owners by Income

	Renters		Owners		All	
Total Households (mil)	34		72		106	
Median Income ($)	26,000		50,000		40,000	
	No. (mil)	%	No. (mil)	%	No. (mil)	%
Severely Cost Burdened*	7.7	23%	8.3	11%	16.0	15%
By Income Groups						
$0-14,999	9.8	29%	9.4	13%	19.2	18%
$15,000-29,999	8.9	26%	11.8	16%	20.8	20%
$30,000-59,999	10.3	30%	20.6	28%	30.9	29%
$60,000+	5.0	15%	30.3	42%	35.3	33%

**Households pay more than 50% of income in rent*
Source: American Housing Survey, 2001

well-managed rental housing can help families become self-sufficient, and ultimately build wealth. And for many families, renting will remain a better financial decision or a preferred lifestyle option.

The best investments in affordable rental housing provide a double bottom line: they improve the well-being of individuals and families while simultaneously strengthening communities. Many foundations have made important contributions to addressing rental housing needs and improving the policy climate for affordable housing. For example:

- The McKnight Foundation in Minnesota established the Family Housing Fund (FHF) and the Greater Minnesota Housing Fund (GMHF), which together have provided gap financing to create about 28,000 units of affordable housing. Both FHF and GMHF are working to change public policy to entice for-profit developers to get back into the affordable housing market.
- In Massachusetts, the Hyams Foundation contributed $3 million in program-related investments (PRIs) toward a loan pool to create 1,000 new units and preserve 3,000 units for very low-income households. Hyams Foundation grantees are leading the fight to preserve a state law that requires every city in Massachusetts to set aside 10 percent of its housing stock for affordable housing.
- The John D. and Catherine T. MacArthur Foundation has invested $20 million since 2000 to support a national initiative to preserve affordable rental housing. PRIs are supporting leading preservation owners and specialized financing vehicles. Grants also support research, policy analysis, public education, legal advocacy and technical assistance.

Investing in rental housing can enhance foundations' efforts in other social service arenas, including health, welfare reform, education, employment, child development and family stability. It also can play a central role in efforts related to "smart" growth, regional economic development and community building.

Who Lives in Rental Housing?

Although homeownership has reached a record level of almost 70 percent of all households, the rental population is continuing to increase; between 1970 and 2000 it rose by about 50 percent to 34 million households. Most people in this country will be renters at some point in their lives.

More than half of all young households, minority households, single-person households and unmarried households with children are renters. *(See Table 2.)* About 70 percent of renters live either in single-family units or small multifamily structures (two to nine units). At one time, most renters lived in cities, but this has been changing for several decades. In 2000, 46 percent of all rental units were in the central city, 39 percent in the suburbs and 16 percent in rural areas. Rural housing needs occur in the outlying portions of most metropolitan areas, as well as outside of these areas. These needs are not adequately addressed by either urban-focused programs or by the housing programs of the U.S. Department of Agriculture.

For young families, renting is often a short-term, but essential, stepping stone to homeownership. Those in their middle years may rent by choice or by necessity, if they lack the resources or stability to qualify for homeownership. For the elderly, renting is likely to be the choice of individuals unwilling or unable to live alone after the death of a spouse. The transition from renting to owning as families age is dramatic. Among households headed by someone under 25, 81 percent rent; for households headed by those 65-74, 17 percent are renters.

Primarily because of their low incomes, half of all renter households have one or more housing problems: cost, quality, overcrowding or a combination. Not surprisingly, the lowest-income renters are most vulnerable. Two out of every three extremely low-income renter households paid more than half their incomes for housing. In 2001, there were 7.7 million renter households with severe cost burdens.

For many years, the problems of housing quality and overcrowding were so acute that little attention was paid to affordability. That has now changed as the number of families with affordability problems far exceeds households that are living in overcrowded or substandard housing.

Two out of every three extremely low-income renter households paid more than half their incomes for housing. In 2001, there were 7.7 million renter households with severe cost burdens.

TABLE 2—Characteristics of Renter Households

	Total HH (mil)	Renter HH (mil)	Renter share
Young households (<35 years)	24.8	14.5	58%
Minority households	27.5	14.1	51%
Single-person households	28.2	12.8	45%
Single-parent households	9.9	5.7	58%

Source: American Housing Survey, 2001

Renters are far more likely than owners to be poor. In 2001, 55 percent of renters had incomes below $30,000, compared to 29 percent of owners. At the other end of the spectrum, only 15 percent of renters had incomes above $60,000, compared to 42 percent of owners. The median income of renter households was about half of the median income of owner households.

Rental Housing and the Federal Government

Most renters, regardless of how low their income, receive no federal housing assistance. And most federal programs are not geared to help the very poorest families.

Although municipalities and states in some parts of the country are increasingly tapping their own resources to address critical housing needs, the federal government remains the principal source of subsidy for low-income renters. Federal assistance is provided through a variety of U.S. Department of Housing and Urban Development (HUD) and U.S. Department of Agriculture (USDA) programs and tax–related subsidies. Notwithstanding these investments, which totaled about $35 billion in 2001, most renters, regardless of how low their income, receive no federal housing assistance. And most federal programs are not geared to help the very poorest families.

Because low-income housing units can be subsidized by multiple federal programs, it is difficult to obtain a precise count of the number of assisted households. This uncertainty makes the work of practitioners, advocates and policy makers more difficult. The best estimate is that 6.6 million families benefit from at least one federal rental housing program, including 1.3 million households in public housing. *(See Table 3)*.

Listed below are the most significant HUD programs. The only programs that still produce new units are those that serve the elderly, disabled and rural residents.

- **Housing choice voucher program, also called tenant-based rental assistance (1.6 million units).** Vouchers pay property owners the difference between 30 percent of the tenant's income and the cost of the unit, allowing low-income families to rent privately owned housing that would otherwise be unaffordable. Since the 1980s, vouchers have been the primary vehicle for providing housing assistance.
- **Public housing (1.3 million units).** Subsidies for capital and operating costs are paid to a local, state or regional public housing authority.
- **Private project-based programs (2 million units).** This program provides long-term contracts to private owners for specific units reserved for low-income tenants. The largest of these programs is the Section 8 New Construction/Substantial Rehabilitation program. Although existing Section 8 contracts may be renewed, no new buildings have been constructed with this source of subsidy since 1983.
- **HOME (627,000 units).** The HOME Investment Partnerships program provides a block grant to state and local governments to address affordable housing needs. The grant can be used for multiple purposes, including ac-

Table 3—Estimated Size of Federal Housing Programs

Program	Estimated Number of Assisted Housing Units, 2000 (unduplicated count; millions)
Public housing (including HOPE VI)	1.3
Tenant-based assistance	
(individual "Housing Choice" vouchers)	1.6
Project-based assistance	
(unit-specific HUD/USDA subsidies)	
Inactive (Section 8, mortgage subsidies)	1.5
Active (elderly, disabilities, rural)	0.5
Other	1.7
Block grants (HOME only)	
Low Income Housing Tax Credit	
Other tax expenditures for rental housing (alternative depreciation; deductions for state/local taxes	
Tax-exempt bonds	
Special populations	
(homeless, Native American, AIDS)	
Total renter assistance	6.6
Total homeowner assistance	35.0
Total, renters and owners	41.0

Sources: Millennial Housing Commission; National Low Income Housing Coalition; U.S. Joint Committee on Taxation, "Estimates of Federal Tax Expenditures"

quisition, rehab and new construction of rental units; development of homeownership units; direct assistance to homebuyers; and tenant-based rental assistance. It is often combined with other subsidies.

The major tax-related federal subsidies for rental housing are:

- Low Income Housing Tax Credit (1.1 million units). The LIHTC provides private-sector tax incentives to developers of rental housing for lower-income households. LIHTC has been the nation's chief source of low-cost financing for new production of affordable rental housing since it was enacted in 1986.
- Multifamily tax-exempt bonds (766,000 units). State Housing Finance Authorities may issue bonds for multifamily housing. A certain percentage of the units must be available to low-income tenants.

There also are several USDA rental programs, run by the Rural Housing Service. The largest of these is the Section 515 program (525,000 units), created in 1963, which provides long-term low-interest loans to builders of low- and moderate-income rural apartments. Average tenant income is $7,600. Funding was cut drastically in 1994; today the program is producing only about 2,000 new units annually. In addition, the farm labor housing program provides loans and grants to build rental housing for low-income farmworkers, and a project-based tenant assistance program provides deep subsidies to Section 515 and farm labor housing projects.

Only a few federal programs target people who are very poor (below 30 percent of AMI): public housing, the Section 8 project-based program, and the interest and rent supplement program. The rest are geared toward households with as much as 80 percent of the area median income.

As substantial as the federal government's investment in rental housing has been, these programs are dwarfed by federal subsidy to middle- and upper-income homeowners through mortgage interest deductions, property tax deductions and exclusion of capital gains on home sales. These write-offs are considered an entitlement and are not based on need. They totaled $121.2 billion in 2001, more than three times as much as the price tag on all programs for low-income renters.

Housing Challenges

There is not a single county in the United States—urban or rural—where a household with one full-time minimum-wage worker can afford the average rent for a two-bedroom unit.

The country's major housing challenges are four-fold:

1. *Making housing affordable for low-income people.* The most pervasive problem facing low-income renters is the gap between the cost of decent housing and what they can afford to pay for it. Housing choice vouchers are the major federal tool for addressing this gap, but they meet only a small fraction of the need. Increasing direct housing assistance, linking housing assistance with opportunities to increase income and improving income support programs also are necessary.
2. *Preserving and maintaining existing rental housing stock.* The stock of privately owned, unsubsidized rental housing affordable to low- and moderate-income families is shrinking as a result of escalating rents, deteriorating properties and aging owners. In addition, federal housing subsidies tied to units for low-income tenants are expiring. These losses are outstripping the production of new, low-cost rental units.
3. *Producing new affordable housing.* A balanced approach to closing the gap between the supply and demand for affordable multifamily rental housing requires production of new housing. New construction is particularly important for very low-income households, but there is currently no federal program dedicated to producing housing for these families.
4. *Providing economic and social opportunities for low-income residents.* Good management of low-income housing requires providing necessary services to those who live there. Housing should link low-income residents to amenities—such as GED classes, broadband access, financial literacy counseling and access to after-school programs—that help residents improve their lives.

Making housing affordable for low-income people

There is not a single county in the United States—urban or rural—where a household with one full-time minimum-wage worker can afford the average rent for a two-bedroom unit, according to the National Low-income Housing

Coalition.

Although the supply of affordable rental housing differs from place to place, and even from neighborhood to neighborhood, overall, the stock of low-cost rental housing continues to decline. In 1989, there were 9.5 million rental units that rented for less than $450 (measured in constant 2001 dollars). By 2001, the number had dropped to 7.7 million units. During the same period, the number of families below the poverty line grew from 7.5 million to 7.9 million.

The affordability gap is by far the most pervasive problem facing low-income renters. Fifty years ago, the standard of affordability for housing was 20 percent of income. In 1981, it was increased to 30 percent for federal subsidy programs. Households paying 30 percent to 50 percent of income for housing are said to have moderate affordability problems; those paying half or more of their income are said to have severe affordability problems. Moreover, many households are so poor that they could not meet their other basic needs even if their housing cost them nothing. Multi-millionaires, on the other hand, could arguably afford more than 90 percent of income for housing and still live very well.

Since 1981, housing choice vouchers have been the major federal tool for addressing the affordability gap. While vouchers constitute the largest federal low-income housing program, they meet only a small fraction of the need. And all too often households receiving vouchers—sometimes after years on a waiting list—are unable to use them because they cannot find suitable units. There are several reasons for this:

- The market is tight and rents for the few available units are more than voucher holders are allowed to pay.
- The housing agencies administering the program either do not give it priority or are unable to obtain funds needed for activities such as outreach to landlords or assistance to families searching for housing.
- Families are discriminated against because of race, presence of children, or mental or physical problems, even though fair housing laws prohibit such discrimination.

Despite these problems, vouchers have successfully housed millions of families, often in better neighborhoods than housing projects subsidized in other ways.

Preserving and maintaining the existing rental housing stock

Housing advocates typically use the term "preservation" to describe efforts to preserve rental units for low-income tenants after public subsidies and related affordability restrictions have expired. However, the "expiring use" problem is only one of many forces that have been diminishing the existing stock of affordable rental housing nationwide. The vast majority of rental housing affordable to low- and moderate-income families is privately owned and not tied to any federal program.

Whether subsidized or not, the pressures of escalating real estate values, deteriorating properties and aging owners jeopardize the affordability of rental housing in strong markets and its very existence in weaker areas. According to estimates by the Joint Center for Housing Studies at Harvard University, more than one million units of low-cost rental housing units were lost during the 1990s. Left unchecked, the current pace of losses appears likely to outstrip the number of new affordable housing units constructed in coming years and further diminish the supply of affordable rental housing by another million units over the decade ahead.

Two types of expirations are occurring: long-term rent contracts under the Section 8 "project-based" program; and affordability restrictions that accompany subsidized financing such as federally insured mortgages and the Low Income Housing Tax Credit. Since 1997, more than 130,000 units whose long-term federal subsidies expired have been lost. By 2005, contracts for 900,000 of the 1.5 million remaining Section 8 units will have run their initial course; by 2010, all but a small handful will have passed the initial expiration mark.

Current policy permits property owners to continue in the Section 8 program, although they are also free to "opt out." Typically, the greatest opt-out risk exists in stronger or rising real estate markets where charging market-based rents gives owners a greater financial benefit than receiving the rent subsidy for existing low-income tenants. The federal "Mark to Market" program, enacted in 1997, increased the likelihood of opt-outs by lowering subsidized rents in situations where owners had been receiving payments above market levels. The subsequent addition of a "Mark-Up-To-Market" variation, however, encourages owners in high-priced areas to stay in the program by raising their subsidized rents to more competitive levels. Restructuring of subsidized project-based rents continues in both situations (rent reductions and rent increases) and further refinements have enabled nonprofits and others to utilize the Mark-to-Market process as an opportunity to recapitalize and preserve troubled or otherwise at-risk properties.

Affordability restrictions related to subsidized financing also are expiring. These include mortgages with federal insurance and, in some cases, outright interest rate reductions; and Low Income Housing Tax Credits, which lowered financing costs for developers. The subsidized mortgages generally have clauses prohibiting repayment for 20 years. As long as the financing remains in place, the properties are required to maintain certain levels of affordability. When the 20-year period ends, so does the requirement to keep rents down. Similarly, the earliest tax credits have 15-year requirements for the properties to meet certain affordability criteria. These early deals began reaching the 15-year mark last year, freeing owners to raise rents to levels no longer affordable to low-income residents.

The loss of affordable housing as a result of opt-outs and mortgage prepayments is dramatic. For example, in California, more than 38,000 of 164,000 units available in 1997 have been lost because owners opted out of subsidy programs. The California Housing Partnership Corp. estimates that another 52,000 units are at risk through 2005. Private owner opt-outs also are a growing problem in the USDA rural rental program; the units lost annually now exceed the number of new units being developed.

While the most attention has been directed to preserving subsidized units, tenants in unsubsidized housing are likely to be even more vulnerable. Residents of properties where an owner opts out of a project-based program are eligible to receive special vouchers intended to stave off their displacement even though the unit will not remain affordable when the household moves. Low- and moderate-income renters in unsubsidized properties located in strong real estate markets have no such recourse when owners raise rents to unaffordable levels or seek to cash out and sell to the highest bidder. Motivated nonprofits seeking to preserve such properties for lower-income tenants generally lack ready funds to make a timely offer. Market-rate buyers will almost always win out because the significant subsidy needed to support this type of nonprofit preservation transaction would take several months to assemble.

In weaker markets, properties are falling prey to deterioration and neglect. Many of these properties were built in distressed inner-city neighborhoods already suffering from disinvestment. Most were built before 1986, and, in fact, a significant share is now more than 50 years old. In addition, widespread problems of inadequate original capitalization, poor management or owner neglect exacerbate the risk to these properties. Owners in weak markets may not be able to raise the capital to make crucial repairs. Moreover, there is no dedicated source of public funding to cover major reinvestment in existing affordable housing, whether it was originally government-subsidized or not.

Without adequate upkeep and periodic renovation, aging rental properties can become a serious threat to the health and safety of residents. Vigorous enforcement of local housing codes is one response to the immediate problem. But without broader policies to help meet the need for additional capital—and, in many cases, new ownership—foreclosure, abandonment and demolition ensue.

In older urban areas, small rental buildings comprise much of the affordable rental stock and the owners are likely to be individuals, small nonprofits or small "mom and pop" developers. Efforts to assist these owners have included raising special local and state funds as well as allocating a portion of the federal block grants to community development financial institutions and bank consortia that deliver loans.

Expiring subsidies, aging owners and deteriorating properties also pose serious threats to thousands of large rental properties in weak markets. The owners of these properties are mainly sophisticated investors whose commitment to affordable rental housing was motivated by the federal tax and financing incentives, which are now largely exhausted.

Expiring subsidies, aging owners and deteriorating properties pose serious threats to thousands of large rental properties in weak markets.

While these owners may be eager to transfer or sell their real estate holdings, buyers with genuine interest and sufficient cash are often scarce. Many older rental properties are scattered across metropolitan areas and tend to be larger than 100 units, limiting the number of mission-oriented nonprofit organizations able to acquire them. Moreover, current federal tax policy imposes a stiff capital gains tax on such sales, even where the current market value of the property may be negligible. In some jurisdictions, special property tax exemptions or tax credits are being used to offset this "exit tax." The Millennial Housing Commission recommended targeted federal exit tax relief for owners that sell to qualified preservation entities.

Legislation to provide federal matching funds to states that set aside or raise resources for housing preservation has been proposed, but not yet enacted. This type of state activity is on the rise, with more than 30 states now reserving a portion of their Low Income Housing Tax Credits and tax-exempt bond allocations for preservation or otherwise prioritizing preservation projects. These states are responding to the fact that preserving existing rental housing generally costs much less than new construction. Preservation also provides immediate stability and relief for existing residents.

Additionally, many states and localities have set up trust funds that provide financing for preservation, as well as for new production and rehabilitation. Some localities have passed notification and other "rights of first refusal" ordinances to give residents additional time to seek preservation alternatives when an owner decides to opt out of a longstanding subsidy program. In Illinois, Cook County passed a pioneering property tax exemption in 2002 designed to give special breaks to owners that elect to remain in the Section 8 project-based subsidy program. This preservation tool was championed by the Chicago Rehab Network, a grassroots coalition of community-based organizations and other housing advocates, as well as by the City of Chicago.

Producing new affordable housing

Closing the gap between the supply and demand for affordable multifamily rental housing requires a balanced approach—preserving existing housing, building new housing and assisting families in paying their rent.

The gap is greatest for extremely low-income households; consequently new construction is particularly important for these families. However, there currently is no federal program dedicated to producing housing that they can afford. The Millennial Housing Commission report notes that "losses of housing affordable to low- and moderate-income households underscore the need to stimulate rental production for all three income groups."

The federal government got into the housing business in the 1930s when it created the Federal Home Loan Bank System and the Federal Housing Administration (FHA) to spur the economy. In 1937, the U.S. Housing Act created the public housing program. (Funding for public housing development dropped precipitously during the late 1970s and stopped in 1983, except for replacement units or court-mandated construction.)

Closing the gap between the supply and demand for affordable multifamily rental housing requires a balanced approach—preserving existing housing, building new housing and assisting families in paying their rent.

The Housing Act of 1949, which called for "a decent home and a suitable living environment for every American family," set ambitious goals. Among other things, the act authorized funding for 810,000 units of public housing. During the 1950s and 1960s, new housing finance programs were enacted to subsidize production of multifamily housing for low- and moderate-income families. To encourage private sector participation, below-market interest rate loans and various direct subsidies and tax write-offs were instituted. The 1949 Housing Act also created rural housing homeownership programs. Amendments to the 1949 act in the early 1960s added the rural rental programs.

The Housing and Community Development Act of 1974 created the Community Development Block Grant program, which continues to fund a variety of community development initiatives, including new housing. It also created the Section 8 program, which gave localities the flexibility to use federal funds for new construction, substantial rehabilitation or tenant-based assistance.

In 1983, new production under the Section 8 New Construction/Substantial Rehabilitation program was halted. Since then the country has been without a production program, other than public housing and homeless programs, that could serve extremely low-income households through a single subsidy source. The only way a private sector developer can construct housing affordable to the lowest-income households is to assemble many layers of local, state and federal subsidy sources.

In 1986, the Tax Reform Act repealed advantageous depreciation provisions, which precipitated a sharp drop in multifamily production. At the same time the act created the Low Income Housing Tax Credit program, providing private-sector incentives for developing rental housing for low-income families.

In the 1990s, the HOME Investment Partnerships program was introduced, which provides block grants to state and local governments to meet their housing needs. Separate allocations for elderly and handicapped persons also were established, as was the HOPE VI program, which replaces public housing units in huge, high-rise projects with mixed-income communities. Mixed-income housing is not a new goal. It was sought in the early days of public housing, and frustrated by rigid federal requirements as well as community resistance.

Incentives for mixed-income housing were built into the 1974 Housing and Community Development Act, and the subject has been given lip service ever since. It will take time to determine whether the mixed-income housing and neighborhoods being created through this and other programs will succeed in attracting higher-income residents who have the option to move to more affluent suburban neighborhoods.

Today, LIHTC and HOME are the nation's major sources of subsidy for new privately constructed rental housing. However, the degree of subsidy is not as great as under previous programs, and the housing being produced does not target families at the lowest end of the income spectrum. According to the Millennial Housing Commission, it would take annual production of more than 250,000 units for more than 20 years to meet the housing needs of extremely low-income households.

The primary barrier to producing new housing for these families is that production and operating costs require rents that exceed the level they can pay. This situation led the commission to recommend targeting federal support for additional housing for extremely low-income households based primarily on availability rather than affordability. Specifically, the commission recommended a program that would provide a 100 percent capital grant for construction, rehabilitation or acquisition of units set aside for these households, eliminating debt service costs. Units would be located primarily in mixed-income developments or neighborhoods. Rents would cover operating costs, including an adequate reserve fund. While these units would typically not meet the 30 percent of income affordability standard, they would provide better housing for extremely low-income households at less than they currently spend.

Most renters, regardless of how low their income, receive no federal housing assistance. And most federal programs are not geared to help the very poorest families.

In addition to costs, another major barrier to production of affordable rental housing is the stigma attached to such housing, subsidized or not. This has led local governments to create zoning restrictions that discourage new production. Local and state governments as well as federal fair housing and anti-discrimination laws will play a critical role in addressing this problem.

Providing economic and social opportunities for low-income residents

Housing experts generally agree that successful affordable multifamily properties can be the cornerstones of healthy neighborhoods and neighborhood revitalization. But success can't be measured simply in terms of whether there is a sufficient number of adequate units affordable to low-income people, or whether owners receive a fair financial return. Equally important is that residents receive adequate public services that allow them to thrive.

The best affordable housing incorporates appropriate non-housing services for residents. For example, properties for low-income families may provide before-school and after-school activities for children, workforce development for adults, or space for third-party providers to deliver these kinds of programs. The cost to provides these services should be built into the property's operating budget. Otherwise, owners often are forced to choose between funding resident services or using their cash for reserves and capital improvements.

While resident services can include anything from soccer leagues to health care to drug-abuse prevention, some housing advocates argue that a patchwork of programs is not the best approach to helping residents attain self-sufficiency. The Community Builders, Inc., the largest urban nonprofit housing developer in the country, has found that three things are critical: offering case management to families; focusing the case management on employment and income;

and helping families build financial assets.

"These are the basics. Other human services should be aligned to them," according to Patrick Costigan, senior vice president of The Community Builders. For example, he argues that day care, transportation assistance and substance abuse treatment should be attached to workforce-development programming. Family development should always have a goal of building a sustainable income for a family, and educational enhancements should be targeted to building the skills of job seekers, Costigan says.

A similar philosophy guides Mercy Housing, headquartered in Denver. Its desired outcomes include permanent employment, increased personal and disposable income, contributions to the economic health of a local community, improved school performance and maximum independent living potential. Sponsored by Catholic women religious, Mercy Housing is a national leader in providing enhanced services through its on-site Community and Resident Initiatives (CRI).

Typical CRI programs include after-school homework clubs, budget planning, job interview techniques, career development, English as a Second Language classes, health and fitness, computer skills development, parent support groups, art classes, mentoring programs, resident and youth councils, and homeownership education. These activities generally occur at community centers at the properties and are made possible through grants and contributions.

A recent policy change in Kentucky may pave the way for greater access to technology for residents of affordable housing. As the result of the efforts of One Economy, a national nonprofit organization, the Kentucky Housing Corporation (KHC) instituted a requirement that all KHC affordable housing provide Internet access. This is the first such action by any public affordable housing agency in the country. Once the housing is wired, One Economy and its partners can provide information, resources, technology, training and tools that help low-income people build assets and raise their standard of living.

Housing developers and policy makers are increasingly recognizing that housing alone—even adequate housing—cannot solve all the problems of low-income residents, who often face multiple challenges. Providing economic and social opportunities is key to the success of the residents, and ultimately the housing.

Opportunities for Foundations

Foundations can play an important role in influencing housing policy, as well as in funding organizations that build and renovate affordable rental housing. In this section are profiles of a variety of foundations with different strategies and funding levels. Many other foundations do this work. The approaches to addressing the shortage of affordable rental housing include supporting efforts to establish a national housing trust fund; to provide services that enable residents to become self-sufficient; and to change federal and state tax policies. They also include providing specialized financing to allow nonprofits to acquire rental housing, assuring that it will remain affordable.

Carol Berde, executive vice president of the McKnight Foundation, points out, "There is a niche for every foundation that wants to invest in this field. Every foundation can play a role in creating affordable housing."

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Below are some grantmaking possibilities for small foundations:

- *Support local, state, and federal housing trust campaigns.* Housing trust funds are accounts that receive dedicated sources of public funds to support affordable housing. They are created to provide permanent affordable housing for those most in need and can fund a diverse range of activities from new housing construction to rental assistance. Contributions of varying amounts to the groups working on the national housing trust fund campaign can pay for public education, grassroots organizing or public awareness. At the state and local level, foundations can support research to plan a campaign, the campaign itself or, once a housing trust fund is in place, monitoring the distribution of money from the fund. For example, the Butler Family Fund gave a grant of $20,000 to help launch a campaign for a housing trust fund in Los Angeles. The grant leveraged other needed foundation dollars. Three years later, the mayor of Los Angeles signed into law a $100 million per year housing trust fund.
- *Support national and regional organizations working to encourage federal and state governments to reinvest in affordable housing.* To resolve the housing crisis, federal and state governments must greatly increase their investment in affordable housing. Foundations can provide grants to support advocacy on these issues, or to convene public and nonprofit sector players.
- *Support local housing advocates to work with Public Housing Authorities.* For struggling low-income families, public housing can be the surest way to maintain long-term stability. There are more than 4,000 local public housing authorities that have tremendous autonomy in prioritizing who is entitled to public housing, and deciding how to spend federal dollars. Small nonprofits can play a vital role in monitoring the activities of these authorities and in helping to make important decisions by "having a seat at the table."
- *Provide support public for housing residents to get involved in developing housing policy and in planning and operating housing programs at the local and state levels.* Public housing residents need to understand the policies and

procedures that affect their lives. Foundations can support public housing resident associations or groups that work with these associations.

The San Francisco Foundation

As is the case elsewhere in the country, low-income renters in the San Francisco Bay Area have been hurt by unaffordable housing costs for decades. Those with the lowest incomes suffer the most, with many now living in extremely overcrowded or inappropriate conditions, becoming homeless or moving from the area. San Francisco, San Mateo and Marin counties have the least affordable rental housing in the nation.

The housing crisis was exacerbated in the 1990s, in part because of land use plans that favored retail and office production, which led to new job growth that far exceeded new housing production. As a result of the mismatch between housing production and housing need, vacancy rates dropped and rents climbed dramatically. The loss of existing subsidized rental units threatens to shrink the supply of affordable housing even further.

Renters have borne the brunt of the housing crunch because they are less able to compete for housing and have less control over rising housing costs than homeowners with fixed-rate mortgages.

The San Francisco Foundation, a community foundation serving Alameda, Contra Costa, Marin, San Francisco and San Mateo counties, has taken a leadership role in calling attention to the affordable housing crisis in the Bay Area and marshalling resources to address it.

San Francisco, San Mateo and Marin counties have the least affordable rental housing in the nation.

The foundation is the fifth largest community foundation in the country, with more than $700 million in assets comprised of funds from individuals, families, corporations and organizations. It made grants of $68 million in fiscal year 2002, including $16 million through a competitive process and $49 million from donor-advised grants, plus other sources.

Affordable housing is the top priority of the foundation's Neighborhood and Community Development program area. The foundation is encouraging efforts to ensure that the local, state and federal governments develop and implement appropriate land use and zoning policies, adopt tenant protection measures, and increase funding for affordable housing. The program area also addresses homelessness, workforce development, neighborhood strengthening and economic development. Program officer Carol Lamont brings 30 years of expertise to the position, including 15 years as housing director for Fremont, Calif.

The foundation recently initiated an Affordable Housing Target Fund, which combines donor funds to contribute to pre-development costs for affordable housing. The first grant of $30,000 from the fund—along with $70,000 from the San Francisco Foundation—was awarded to the Chinatown Community Development Center. The center will develop 87 new apartments in the North Beach area.

The foundation has identified a number of strategies to increasing housing opportunities for low-income families. It is funding most of these strategies through its competitive grants process.

- *Funding public policy work to create change.* Foundations can support organizations working to advance policy development at the local, state, and federal levels on behalf of vulnerable communities and people with severe housing needs. Systemic change is required to address the housing crisis.
- *Creating new revenue sources for housing.* Many nonprofit housing developers have geared up to prepare projects for funding, only to be faced with budget

cuts that eliminated vital funding. A key strategy to address this issue is the creation of housing trust funds at the local, state, and federal levels to provide public resources dedicated to affordable housing.

- *Removing land use barriers.* California requires local governments to address housing needs by adopting land use plans and regulatory systems that provide opportunities for housing development. Many housing advocates have become active in the planning process. Through this work they are raising important issues and having a significant impact on the availability of land and funding for affordable housing.
- *Promoting inclusionary zoning and other zoning techniques.* Inclusionary zoning requires that a percentage of housing units in new residential developments be made available at affordable rates for low- and moderate-income households.
- *Stabilizing renters who are threatened with displacement.* Renters may face displacement as a result of increasing rents, poor housing conditions, refusal of landlords to accept Section 8 rent subsidies, and arbitrary evictions. Housing advocates and local service providers have developed solutions to these problems. For example, advocates are working to enact rent stabilization ordinances, which restrict rent increases to a maximum rate each year.
- *Funding housing programs to address immediate needs.* Housing scholarship programs, which provide reduced rent for a specified period, can help stabilize the homeless and families on welfare while they complete job training and increase their income through employment.
- *Funding advocacy to gain community acceptance for affordable housing.* Without greater community support and understanding, elected officials will not undertake the necessary steps to increase affordable housing because they believe these actions will be politically risky.
- *Providing funds for predevelopment housing costs.* Access to early funds is critical to get a planned housing development through the predevelopment stage so that a tax credit application for financing assistance can be submitted. By providing grants for predevelopment work, grantmakers can make a big difference in building more affordable housing.

One of Lamont's goals is to encourage donors to contribute more to address housing needs through the foundation's donor-advised accounts. She acknowledges that it is a tough sell. "People think of cancer or their alma mater; they don't think of affordable housing…we're trying to connect with them, inform them of opportunities and inspire them to fund affordable housing." Lamont also is urging other grantmakers to fund affordable housing. Because of the scope of the housing problems in the Bay Area and the fact that the work is expensive and complex, foundations have shied away from grantmaking in this arena. "I try to show them that putting $25,000 or $50,000 in predevelopment really makes a difference."

Hyams Foundation

The mission of the Hyams Foundation is to increase economic and social justice and power within low-income communities. The foundation believes that it cannot achieve that mission without a commitment to creating affordable housing. Affordable housing has been a central focus of the Boston-based foundation's funding priorities and investment strategies since the mid-1980s.

The Hyams Foundation was established in 1921 by Godfrey M. Hyams, a metallurgist, engineer and financier who was responsible for the growth of such companies as the Anaconda Mining Company. The independent foundation, with assets of $100 million, has three major outcome areas: civic participation, community economic development and youth development. It granted a total of $5.6 million in 2002.

Hyams focuses on below-market rate housing—both rental and homeownership—for very low-income families. It has a dual housing strategy: investing in community organizing and public policy advocacy; and preserving and producing affordable housing. In 2003, it expects to spend about $950,000 on this work.

Through its support of nonprofit organizations and coalitions, Hyams is working to improve the policy climate for affordable housing in Boston and the state. "The point is to make investments in their capacity to change state law and regulations and increase resources," says Henry Allen, senior program officer.

Intense public policy advocacy work supported by Hyams and other funders led to an important victory with the establishment of a state housing trust fund. Organizations such as the Citizens Housing and Planning Association (CHAPA), the Massachusetts Association of CDCs (community development corporations) and others worked for years to create the trust fund. While there has been an annual battle to get the state to fulfill its commitment to appropriate $20 million each year for five years, establishing the trust fund was extraordinarily important in terms of systemic change.

During the past decade, community development corporations have been the primary movers in building affordable housing in Boston and statewide, successfully tapping into Low Income Housing Tax Credit funds and other subsidies.

CHAPA, a Hyams grantee, also is leading the fight to preserve a state law that requires every city in Massachusetts to set aside 10 percent of its housing stock for affordable housing. The law, "Chapter 40B," provides that housing developers can override local zoning laws if a community does not meet the 10 percent requirement.

The foundation awarded a multiyear grant in 2002 to the Boston Tenants Coalition, which works at the city and state levels to preserve existing affordable rental housing and identify resources for new housing. Another long-term grantee is City Life/Vita Urbana, a group that addresses public policy issues such as reinstituting rent control in Boston, which was eliminated in 1992.

The Chinatown Progressive Association has won a number of victories in its efforts to preserve housing for low-income people after building owners have opted out of expiring federal subsidy programs. The foundation grantee also has fought successfully for a requirement that as developments go up on the few vacant properties in Chinatown, a percentage of units be set aside for below market-rate rentals.

By strongly supporting the work of organizations such as these, Hyams and other funders have been able to lend greater visibility and credibility to the groups' efforts. "It means something when the mayor of Boston and the governor know that there is this kind of support. It doesn't tip the balance of power against the real estate industry, but [the funders'] ability to invest significant resources means that these organizations have a fighting chance," says Allen.

Through its Community Economic Development program, the Hyams Foundation is spending about $450,000 per year in 2002 and 2003 to support CDCs developing affordable housing. Many of these CDCs are negotiating with landlords to acquire buildings whose federal subsidies are expiring to preserve them as affordable rental housing. Others are doing new development.

During the past decade, CDCs have been the primary movers in building affordable housing in Boston and statewide, successfully tapping into Low Income Housing Tax Credit funds and other subsidies. As in other cities, limited public and private resources, scarce land, gentrification and other factors have hampered their efforts. However, as Allen points out, "if you remove CDCs from the equation, you'd have almost no affordable housing in the state over the last 10 years."

The Hyams Foundation also has committed $3 million in program-related investments (PRIs) toward the Home Funders project, a $26 million loan pool to build housing affordable to people with annual incomes below 30 percent of the median income in Boston. The goal is to create 1,000 new housing units, primarily rental, over the next 10 years and to leverage creation or preservation of another 3,000 units. The project has raised $16 million thus far.

Fannie Mae Foundation

The Fannie Mae Foundation is the largest foundation in the country devoted to affordable housing and revitalization of communities. It funds community development corporations (CDCs) and community groups undertaking bricks-and-mortar projects, as well as organizations working to change public policy. While a major focus of the foundation is promoting homeownership, its grant portfolio is balanced about equally between supporting rental housing and homeownership efforts. The foundation is specially committed to its hometown of Washington, D.C.

The foundation's primary goals are to elevate the need for affordable housing in the minds of the public and policy makers, and to share successful approaches to addressing the problem. Among the activities that accomplish these goals are the annual Maxwell Awards of Excellence, which recognize the work of nonprofit organizations that develop and maintain housing for low-income people, and KnowledgePlex, an interactive web site for those involved in neighborhood revitalization. KnowledgePlex allows individuals and organizations to share best practices and other learnings.

The Fannie Mae Foundation is funded by Fannie Mae, a publicly traded government sponsored enterprise. In 2001, the Fannie Mae board of directors gave the foundation $300 million. These funds combined with Fannie Mae's 1996 $350 million stock donation will enable the foundation to invest $1 billion in communities throughout the country over a 10-year period. Grants totaled $37.5 million in 2002.

On the "bricks and mortar" front, the Fannie Mae Foundation recently pledged $800,000—a two-year $300,000 grant and a $500,000 loan—to Mercy Housing, a Denver-based nonprofit. Since its inception, Mercy has developed about 11,000 units of housing for low-income individuals and families. Mercy Housing's approach is to acquire and finance entire portfolios of at-risk, affordable multifamily properties and provide enhanced services to residents.

The Foundation also created the Community and Neighborhood Development Fund (CNDF) in 1994 to provide low-interest loans to nonprofits that focus on housing for low- and moderate-income families. CNDF has disbursed $28.8 million in cumulative loans since 1994.

On the policy side, Fannie Mae Foundation supports organizations that advocate on behalf of low-income residents around housing issues, such as the National Low Income Housing Coalition (NLIHC). NLIHC focuses its advocacy work on those with the most serious housing problems. The group's foremost policy priority is to enact legislation to create a national housing trust fund that would build and preserve 1.5 million units of rental housing for the lowest-income families over the next 10 years. NLIHC also publishes *Out of Reach,* an annual report that analyzes wages and rents in every county and state in the country.

The foundation also supports the Southern California Association of Non-Profit Housing (SCANPH), which was instrumental in passing a bond referendum to establish a $100 million housing trust fund in California. SCANPH is an umbrella organization of 500 member groups engaged with affordable housing.

One of the foundation's priorities is to help draw the connection between housing and other issues. According to Peter Beard, Fannie Mae senior vice president for Knowledge Access and Technology Strategy, "People who have a different focus, such as health care or transportation, can't connect to housing because we don't talk about how it intersects with their issues. We should look at housing in an integrated, cross-sectoral way. We've siloed ourselves in the housing industry, and that makes our work more difficult."

The John D. and Catherine T. MacArthur Foundation

The John D. and Catherine T. MacArthur Foundation provides major support to expand and improve affordable housing options throughout the U.S., with special emphasis on rental housing. This support has four elements:

1. *Program-related investments to CDFIs.* Since the mid-1980s, the foundation has made program-related investments totaling more than $100 million to dozens of community development financial institutions across the U.S. The development, rehabilitation or purchase of affordable housing is a primary goal for most of these intermediaries.
2. *Public housing transformation in Chicago.* In Chicago, where MacArthur is headquartered, the foundation provides grant support for citywide efforts to assist with Chicago's Plan for Transformation. This plan involves the rehabilitation or construction of approximately 25,000 public housing units over the next seven to 10 years. To date, the foundation has awarded approximately $17 million in grants toward these efforts. Current grantmaking focuses on helping public housing residents improve their social and economic circumstances and fostering the success of new mixed-income communities, which include affordable housing and a significant component of public housing.
3. *Preservation of affordable rental housing across the U.S.* MacArthur is the nation's leading philanthropic supporter of affordable housing preservation. In 2000, the foundation launched a $45-million Affordable Housing Preservation Initiative designed to call attention to the importance of rental housing and stimulate new policies that bolster the nation's diminishing stock of low-cost rental units. Direct loans to 10-15 large-scale nonprofit housing owners form the centerpiece of the preservation initiative. The initiative also includes investments with intermediaries that provide specialized financing for nonprofit preservation transactions and grants for preservation-related research and policy work.
4. *Reaffirming the value of rental housing.* Complementing its support for practical efforts to increase and maintain the supply of affordable rental housing, the foundation is supporting national research, policy analysis and public education projects to sharpen measures of housing cost, quality and availability, and to illuminate the role that stable, affordable housing plays in improving education, health, employment and other critical dimensions of human and community development.

A focus on rental housing unites the four components of MacArthur's support for affordable housing. Debra Schwartz, director of Program-Related Investments and chair of the foundation's Housing Strategy Group, observes that "affordable rental housing is especially crucial for lower-income and younger families, as well as those in transition due to changes in employment, marital status, health or other factors." Growing housing difficulties among lower-income families pose a major policy challenge that requires "fresh thinking about the benefits—beyond shelter—of stable, affordable housing in all its forms," Schwartz says.

The MacArthur Foundation is a private, independent grantmaking institution dedicated to helping groups and individuals foster lasting improvement in the human condition. It has awarded more than $3 billion in grants to organizations and individuals in 85 countries since it began operations in 1978. It is one of the nation's 10 largest private philanthropic foundations, with annual grantmaking totaling approximately $170 million.

Since launching its Affordable Housing Preservation Initiative three years ago, the foundation has awarded low-cost loans in the form of program-related investments to four nonprofit housing owners with significant preservation ambitions. These awards included early and substantial support for the NHT/Enterprise Preservation Corp., which subsequently preserved more than 2,800 units of low-cost rental housing in six states and the District of Columbia. In mid-2003, the Foundation expects to complete a year-long selection process and make loans of $1-3 million each to as many as 10 additional nonprofit preservation leaders.

"Due to unfavorable tax policies, challenging market conditions and multiple financing barriers, [preservation] opportunities will go unrealized unless a new generation of mission-oriented owners has the capacity and capital to step in."

Owners of rental housing are aging along with their properties. This motivates many to shed their holdings and expands potential preservation opportunities. But, as Schwartz explains, "due to unfavorable tax policies, challenging market conditions and multiple financing barriers, these opportunities will go unrealized unless a new generation of mission-oriented owners has the capacity and capital to step in."

Successful preservation owners can significantly reshape local, state and federal housing policy too. One example is Preservation of Affordable Housing, Inc. (POAH), a new national nonprofit supported by MacArthur. POAH established itself with the acquisition of a 1,600-unit portfolio of federally subsidized housing in Missouri. This transaction led the U.S. Department of Housing and Urban Development to create new incentives facilitating sales to nonprofit owners that make long-term affordability commitments.

MacArthur also supports regional and national networks working to strengthen preservation-related policies at local, state and federal levels through policy analysis, public education, legal advocacy and technical assistance. These networks help a variety of stakeholders navigate complex laws, regulations and financing problems related to affordable housing preservation. Their beneficiaries and partners include residents, owners and buyers of existing rental properties, as well as community organizations and advocacy groups, elected officials and other policy makers.

The National Housing Law Project, for example, monitors preservation-related court cases across the country and provides expert assistance to attorneys and others. Another foundation grantee, the California Housing Partnership Corporation (CHPC), worked with the City of San Francisco to help design and implement several successful preservation programs. These include a financial guaranty designed to offset the risk that the federal government might fail to appropriate sufficient funds for outstanding Section 8 rent subsidy contracts. Currently, CHPC is surveying states and localities across the country to identify similar types of creative financing tools that could be adapted for use in California and elsewhere.

"The powerful forces eroding today's supply of low-cost rental housing create both pressing need and a window of opportunity," according to Schwartz. "A major policy commitment to affordable housing preservation could bring dedicated ownership and needed capital to a million or more units of existing, low-cost rental housing over the decade ahead."

The McKnight Foundation

In 2000, the Minneapolis-based McKnight Foundation announced a $24.5 million grant to the Greater Minnesota Housing Fund (GMHF) for affordable housing in the state (excluding the Minneapolis/St. Paul area). At the time, the grant was the largest ever made by the foundation. Last April, the foundation topped its record, with a $28 million, four-year grant to the Family Housing Fund (FHF) to develop and preserve affordable housing in the seven-county Twin Cities area.

Both funds are intermediaries created by the McKnight Foundation (with the Blandin Foundation, in the case of GMHF). Their role is to provide gap financing to produce and preserve affordable housing; promote a resource delivery system that is collaborative, efficient and leverages other resources; and explore new ways to lower the cost of affordable housing and integrate it with smart growth principles.

The Family Housing Fund and the Greater Minnesota Housing Fund have provided gap financing that allowed the production of 28,000 units affordable to low-income families.

The McKnight Foundation was created in 1953 and endowed by William L. McKnight, one of the early leaders of the 3M Company, and his wife. It is unusual in that it is one of the country's largest foundations, with approximately $1.6 billion in assets, while remaining anchored in one state and under the direction of a family board.

The foundation spends a very large proportion (15 to 20 percent) of its budget each year on affordable housing, supporting both rental housing and homeownership. The bulk of this work is through local intermediaries. In addition to FHF and GMHF, the foundation supports three intermediaries that provide pre-development funding and strengthen the capacity of nonprofits and municipal housing developers: LISC (Twin Cities office), Corporation for Supportive Housing and the Minnesota Housing Partnership.

Since affordable housing work requires underwriting and technical skill, "our strategy was to create intermediary organizations that focus all their work on affordable housing and could be expert in what they do. We didn't want to figure out whether to fund Project A or Project B or how much to give them," explains Carol Berde, executive vice president of the foundation.

Since 1980, the foundation has invested $170 million in affordable housing, three-quarters of which went to FHF and GMHF. Together the intermediaries have provided gap financing that allowed the production of 28,000 units affordable to low-income families.

The two funds also are major players in making the system that creates affordable housing work. For example, they play an important role, along with other funding partners, in the state's process for evaluating subsidy applications. Together, they decide whether a project is worthwhile, and how much each organization will put into it. This enables public and private funders to concentrate affordable housing resources on the projects that are most likely to get completed.

FHF played a similar role in 1993 when it convened all of the organizations that had invested in rental housing during the previous 20 years to address the problem of deteriorating, financially distressed buildings. Many of these buildings were too thinly capitalized in the first place, were not built to withstand family use and had no funds put aside for maintenance. The groups, many of whom had financial interests in the developments, examined each project to decide what needed to be done, how much it would cost and who would pay for it. More than 80 projects, including 4,000 units, have been stabilized through this interagency process.

Although FHF and GMHF do not fund resident services, by bringing together multiple agencies at the same table, they play an important policy role in helping to improve the system by which resident services are funded.

Public policy change has been increasingly important to the McKnight Foundation, according to Berde. "It has become apparent that philanthropic money and public money by themselves will always be insufficient to meet the affordable housing needs of the state," she says. Consequently policies need to change to make it economically feasible for for-profit developers to get back into the affordable housing market. Both FHF and GMHF are working to find new ways to reduce construction costs, provide regulatory relief and create incentives for these developers.

Berde would like to see more foundations addressing the issue of insufficient affordable rental housing. To do so, they need to recognize that goals have to be realistic. "Even McKnight, with all our resources, is not addressing the affordable housing problem here at a scale that would enable us to say that the problem is solved. If you start out with a goal to meet everyone's housing needs in your community, you are going to fail. If you're comfortable with the idea that what you do will provide better shelter for even some families, that's a very important contribution."

Conclusion

Despite greater emphasis on homeownership, rental housing remains a critical part of the U.S. housing mix. Nationwide, about one-third of all families—about 34 million households—reside in rental housing. The federal government is the principal source of subsidy for low-income renters, through a variety of HUD and USDA programs and tax–related subsidies. Notwithstanding these substantial investments, most renters, regardless of how low their income, receive no federal housing assistance. And most federal programs are not geared to help the very poorest families.

The most significant housing challenge is affordability. Nearly one-fourth of American households spend more than 30 percent of their income on housing, the level that is considered affordable. Other challenges are to preserve and maintain existing rental housing stock; produce new affordable housing; and provide economic and social opportunities for low-income residents.

Many foundations already are playing an important role in addressing these challenges, understanding that stable, affordable rental housing for low-income families can enhance their efforts in other social service arenas, including health, welfare reform, education, employment, regional economic development and community building. While what remains to be done may seem daunting, it is important to remember that most public and private efforts to provide decent, stable rental housing have been successful.

Most public and private efforts to provide decent, stable rental housing have been successful.

Neighborhood Funders Group
One Dupont Circle, NW, Suite 700
Washington, D.C. 20036
Phone: (202) 833-4690
Fax: (202) 833-4694
www.nfg.org