

Affordable Housing Needs/Potential Solutions

By Michael C. Rohrbeck & Kale Williams, 2001

Problem: Ineffective & Inefficient Housing Production

Affordable Housing production has become too costly to develop, too complicated and time consuming to produce, overburdened with private/public debt service payments and results in housing that is unmanageable over time and does not meet the needs of working poor without rent subsidies.

Solutions

- ❑ **Create a Capital Grant affordable housing production program oriented to families (modeled after the successful Section 8/202 program for elderly). Like Section 8/202, impose limits on development costs, restrict “financial layering”, keep projects debt-free and prioritize projects with local cost write-downs. Unlike 202, do not provide rent subsidies, but require or “incentivize” development approvals based on municipalities that enable property tax abatements and/or separately support rent subsidies e.g. like Chicago Low Income Housing Trust Fund. Encourage innovation, but limit bureaucratic red tape and sponsor compliance/reporting/accountability to one agency, and, allow for a mix of incomes. Consider initiating program as model and review later for increased funding.**

Problem: Need for Housing Preservation

Expiration of Project Based Section 8 contracts, sales of Low Income Housing Tax Credit developments loom as a national crisis for tens of thousands who may lose access to affordable housing

Solutions

- ❑ **Owners who terminate expiring Section 8 and subsidy/tax credit contracts must give tenants and other interested parties a one-year notice of their intent. This is not enough time to organize residents, or, to seek out alternative development/ownership mechanisms, partners and funding. Have legislation require a two-year notice.**
- ❑ **A big problem with expiration/sale of tax credit/limited partnership projects is that corporate investors want to be “made whole” with the sale so that they do not incur significant capital gains taxes. Significant displacement/gentrification can result when sale proceeds cover these costs. Legislation could waive such taxes, if the approved project refinancing, development plans and ownership allow for benefit to projects that retain half the residents with incomes at or below 50% of the area median income; a quarter at or below 30% of the area median income.**

Problem: Inflexible Rent Subsidies

Portable Section 8 vouchers do not always work well in certain communities because of high market rents, or where homeownership/condo options are preferred. This problem is exacerbated by discrimination of families with children, forcing many voucher holders to resort to living in lower income/depressed minority communities.

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Solutions

- ❑ Various Coalitions, think tanks are working on this issue. **“Exception rents” are possible, but legislation could enable flexible rent subsidies as one way to foster income/ethnic integration in higher income/reinvesting communities.** The success of public housing “transformation” and high-rise relocation efforts may hinge on this and other related reform measures that could be legislated. Some municipalities are struggling to use Section 8 in cooperatives and first-time homebuyer programs, including New Homes for Chicago, but legislation would likely make this more workable.

Problem: Need for Diverse Housing Options & Regional Solutions

Exclusionary zoning and high local property taxes stifle or dilute the impact of efforts to provide affordable housing via production and rent subsidy programs

Solutions

- ❑ For large municipalities, **increase their share of community development block grant funds, or other matching funds, for those that innovate with “inclusionary housing programs” or tax abatement efforts.** For example, new developments requiring zoning, variances and special approvals by the local governments can require a percentage of housing units be made available to low and moderate income people, or, that “in lieu of” payments be made into a fund that would support local affordable housing projects.
- ❑ Also See Capital Grant Solution/Proposal above.

Problem: Need for Alternative Programs to Support Families

The lack of affordable housing in higher income areas, particularly suburban areas outside the urban/minority core, causes significant problems for low and moderate income families to understand, reconcile and manage access to jobs, childcare and transportation.

Solutions

- ❑ Since development of affordable housing costs per unit have reached obscene levels in big cities nationwide, an alternative approach might be **to fund “upward mobility grants” to low-income families as an alternative.** For half to two-thirds of the cost of producing a unit (@\$100,000 plus each), families could be awarded grants that they can use flexibly within constraints of an upward mobility plan. Such plans would incorporate the advice/5-year support of various local and community development agencies that help families deal with housing choice options or home purchases/owner education, budget/investment counseling, education/job training and placement, transportation and child care issues. Some of the same agencies that develop affordable housing also have the capacity to support some of the above kind of activities/services, which do not have to be delivered or limited in a community-specific way.
- ❑ Also see Capital Grant Solution/Proposal above.

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Affordable Housing Needs/Potential Solutions (Part 2)

In our initial discussion paper, we laid out a range of problems, issues and potential solutions to address affordable housing needs. In this second part we identify some guiding principles/priorities that can address such needs for rental and ownership housing, with a particular focus on programmatic efforts that benefit people with incomes above the poverty line and that leverage other government/private resources in efficient and environmentally sensitive ways.

Guiding Principles for both Homeowner & Renter Programs

Need for Municipal Matches & Incentives for Homeowner & Renter Programs

- A carrot and stick approach with municipalities may be ideal to achieve important social and environmental goals, and foster development of programs that make sense locally and employ some or all of the guiding principles noted below. This effort will likely be resisted and alternative means of doing the same thing should be explored. We suggest a 15% reduction in CDBG, HOME and housing grant allocations to municipalities across the board. Concurrent with this would be supplemental funding possibilities up to 115% of normal allocations, subject to municipalities engaging in activities that support the following:
 - (1) Affordable housing provision in high job growth areas where there was minimal previous activity
 - (2) Housing programs that encourage and prioritize a mix of incomes and racial/ethnic integration within cities, suburban and rural areas
 - (3) Local programs that result in lowering of housing costs e.g. property tax reduction or abatement programs, energy/utility conservation initiatives (like super insulation projects), inclusionary zoning, employer linked commuter/public transportation programs, waivers of regulations that restrict density, location and type of housing more conducive to lower income people and families
 - (4) Affordable housing programs that complement and support stable employment and environmentally sensitive means of transportation
 - (5) Pilot programs that link housing with employers with greater than 500 employees
 - (6) Affordable housing that incorporates/supports supportive services to housing residents. (This is needed for people and families of modest incomes, but unlike programs serving seniors and special needs groups, this has not been a federal priority.)

Debt Elimination/Program Simplification a Key to “Production Programs”

- Capital Grant affordable housing programs (Solution #1 in our initial concept paper) modeled after successful HUD programs (like Section 8/202) remains very relevant to people above the poverty line. This is especially true in high cost areas – the expenses for managing housing, plus modest profit, fully taps the rent-paying capacity of people over the poverty line e.g. 50% - 80% of the area median income. The same could apply to multi-unit ownership housing, affordable condominiums and cooperatives.

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Methods for Maximizing Cost Effectiveness & Diverse Support

- For any program where grants are made/passed through, the amounts of the grants per unit of housing should be adjusted based on whether it would be used in low, medium or high cost areas (for example \$25,000, \$50,000 or \$75,000 grants per unit respectively). This helps rescue higher cost areas that are in need of income integration and closer access of workers to jobs, but where many programs simply are not feasible without layers and layers of additional funding/complexity. A lower grant, on the other hand, still goes a long way to paying for homeownership or rental housing production or cost write-downs in rural and lower cost suburban areas.
- We suggest creation/consideration of programs that reduce or manage costs for housing recently produced privately or decent, privately financed housing.
- Non-profits, community development corporations (CDCs) nationwide have been major providers of housing production programs historically. The complexity (and in many cases the lack of economic viability of production and property management) have slowly forced these grass roots organizations out of development and property management or into subsidiary roles with high overhead for-profits, intermediaries and “housing partnerships”. **Community development interests, as well as local governments, may be ready to support a change in strategy with a few key program features:**

- (1) have HUD Certified Housing Counselors (typically employed by CDCs) prioritize what buyers, owners, tenants, and single-family homes are eligible for pass-through grants,**
- (2) require home buyers, coop owners and tenants complete ownership/tenant training curriculum as a pre-requisite for grant allocations (also typically run by CDCs or collaborating agencies),**
- (3) assure funding for the above through block grants, and, promotion of counselor certifications for communities that may be underserved**
- (4) dramatically reduce role of municipalities for administration and directly financing production (CDBG, HOME etc), except for simplified grant making and vouchering management with delegate agencies**
- (5) resume past federal efforts to encourage states and municipalities to reduce onerous requirements and fees (FHA and PHA standards are adequate to assure safe, decent and sanitary housing)**

A local success story, albeit awkward and challenging, is “New Homes for Chicago”. Essentially, the City uses pass-through federal grants to write down construction costs, goes to great lengths to find vacant land or suitable buildings, and works hard to find other subsidies to make production feasible. The above-described approach could achieve the same end, do it more efficiently, and place people in quality housing already available in the privately-funded marketplace.

Guiding Principles for Renter Programs

- Renter Programs should address landlords' unwillingness to rent to tenants with portable rent subsidies (which have historically been available to both very low and low-income people). Keys for landlords' responsiveness are quality of selection/screening by PHA/non-profit administrator and timeliness of inspections and subsidy payments.
 - The National Low Income Housing Coalition has proposed an increase in the number of rent-subsidy vouchers. The Urban Institute has proposed that the Section 8 program be directly administered by private not-for-profits e.g. CHAC model in Chicago, and recommended regionalizing fragmented geographic/municipal administration of rent subsidy programs. We agree that these are essential initiatives.
 - Modest grants to reduce debt requirements or enable energy conservation or cost reduction measures could be incentive to fostering acceptance in privately managed, quality properties. (Debt write-down grants should be limited to those costs applicable to acquisition, development and construction – not owner profit, fees or capital draws.)
 - Programs that promote mixed-income housing via acceptance of rent subsidies should have rent reasonableness and profiteering checks and set limits rent subsidized occupancy e.g. 25-50% of building units
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MUNICIPAL MATCHES & INCENTIVES FOR HOMEOWNERSHIP AND RENTER PROGRAMS

Affordable Housing Needs/Potential Solutions (Part 3)

Background: In an environment where housing and community development programs have become increasingly complex and costly; and where prospects of political agreement for increased federal support for affordable housing are unlikely; new approaches are required that prompt necessary, even painful changes with funding cutbacks, matches and incentives.

Goal: To leverage federal funding at current levels for housing and community development programs with increased municipal and statewide resources in order to address social, environmental and affordable housing with integrated strategies.

Objective: To stimulate innovation and collaborative programming by and between public and private sectors, and among communities or regions of varying size and divergent interests, through a competitive process intended to reward units of government with increased levels of CDBG, HOME and housing grant allocation funding. *A preliminary step would be to reduce all allocations by 15% across the board, and, to concurrently invite proposals from entitlement cities and states that address in new ways, with verifiable increases in matched resources, one or more the programming priorities listed below:*

- (1) Affordable housing provision in high job growth areas where there was minimal previous activity
- (2) Housing programs that encourage and prioritize a mix of incomes and racial/ethnic integration within cities, suburban and rural areas
- (3) Local programs that result in lowering of housing costs e.g. property tax reduction or abatement programs, energy/utility conservation initiatives (like super insulation projects), inclusionary zoning, employer linked commuter/public transportation programs, waivers of regulations that restrict density, location and type of housing more conducive to lower income people and families
- (4) Affordable housing programs that complement and support stable employment and environmentally sensitive means of transportation
- (5) Pilot programs that link housing with employers with greater than 500 employees
- (6) Affordable housing that incorporates/supports supportive services to housing residents. (This is needed for people and families of modest incomes, but unlike programs serving seniors and special needs groups, this has not been a federal priority.)

The municipalities could win original funding levels or additions up to 115% of their original allocations. One expected outcome is that fully two-thirds of funded units of government would propose new approaches to meeting housing needs in socially and environmentally appropriate ways. Joint applications with more than one municipality would be encouraged, as well as proposals that include collaborative commitments between units of government, public, private and non-profit interests.

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DRAFT UNDER CONSTRUCTION: *Completion requires input and guidance from persons who are users and administrators of CDBG and HOME funds -- people who may feel threatened by this changes to policy and funding approach in these valued programs.*

Process for Implementation: to be completed

Resources & Needs for Plan Development: to be completed

Examples: to be completed

Overcoming Anticipated Obstacles: to be completed

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