Methods and Means to Increasing Affordable Housing Opportunities with Existing Subsidy Resources

The recently submitted budget of the Bush Administration, and related calls to addressing problems of waste and inefficiencies in programs, makes current and critical the re-examination of how we can create affordable housing opportunities by the most efficient means. Here is a recap of alternative policies others and I have proposed. It includes comments on potential federal, state and local changes that may be needed to win the endorsement of conservative interests -- looking to support owners and the housing viability in the private sector, and liberal interests -- who want to address the housing needs of the lowest income. In part, embracing these policies and strategies is an admission that we can do better with the same resources; we can better match the type of subsidies/strategies to the kinds of markets/income groups. We can forge new relationships with cost-efficient private owners and developers who can play an essential role in a marketplace that includes people of all incomes.

THE ALTERNATIVE POLICIES

Alternative Rent Subsidy Strategies

The Chicago Low Income Housing Trust Fund approach to alternative, project-based rent subsidies is a nationally recognized model being looked at for expansion in Illinois and elsewhere. It is a program loved by managers and tenants alike; it is relatively unbureaucratic; and, it has and can be used both with new developments or existing housing. Using alternative rent subsidies, even with CDBG and HOME grants funded up front and drawn down over time, have the potential of creating housing for the lowest income at less than the cost of new, public-private partnership development. By some calculations, two to four families can be benefited as compared to those benefiting from newly developed housing. (See my chart attached.) This program has to-date utilized only local sources for rent subsidies.

Federal Role: HOME funds allow for support of tenant-based rent subsidies, but many of the provisions mirror the housing voucher program that spooks many owners in the private sector. Changing HOME legislation, amending regulations or enabling waivers to allow for alternative, project-based rent subsidy programs as represented by Chicago's Low Income Housing Trust Fund, could spark innovation and creativity nationwide.
State and Local Role: Begin to examine this approach as an alternative to direct development of affordable housing in public-private partnerships. As the costs of development have escalated overtime, this approach becomes more feasible with each passing year.

Resource-Supported Inclusionary Housing

Michael C. Rohrbeck Phone: (312) 217-4211 E-Mail: MCRCareer@aol.com

The following strategies can create more affordable units by applying subsidies to private owners in relatively unbureaucratic ways -- who have existing quality housing that has been well-maintained or cost-efficiently developed with strictly private resources. By doing so, private owners profitability and strong occupancy can be maintained, while providing a portion of their units as rent restricted and available to households at or below 30% of AMI (the most difficult population to benefit by any means).

Newly Developed Housing

Provide grants large enough to make apartments available to tenants at or below 30% of AMI on a post rehab/development basis e.g. $50-125,000 per unit. The onus would be on owner/developers to privately finance their projects using the most cost-efficient means and meet local minimum quality standards.

Federal Role: As necessary, liberalize requirements that may exist to apply Davis-Bacon requirements on owners retroactively (as if their housing were acquired and constructed with subsidy sources). Amend legislative wording or enable regulator reforms, revisions and waivers (as needed and appropriate) that currently may limit subsidy uses to “bricks and sticks” or prohibit grants that hint of “refinancing”. This will enable states and localities to create agreements that would allow grant pass-thrus to be applied to post-development debt service reductions, no-interest loans, forgivable loans or grants. or even fee-for-service contracts to owners who provide a portion of their units as below market over a period of time.
State & Local Role: Some grant making is occurring like this on a state and local basis, particularly with trust fund resources not garnered through federal pass-thrus. However, states and localities might need to revisit their emphasis on subsidizing layered, public-private partnership projects relative to privately financed developments. States and localities would need to craft agreements with owners that hold owners accountable for keeping units occupied by income-eligible people, provide bail-out/pay-back provisions, while keeping terms relatively unbureaucratic (to make program attractive to owners least inclined to welcome “subsidized” housing/tenants). Agreements would not likely bind owners to lower rents for the same term as public-private partnerships, but rather include terms and requirements over shorter time frames (7-15 years, or with annual renewals) and assume that the subsidies would float from one eligible location to another in the marketplace.

Existing, Quality Housing

In this strategy, grants would be passed through in one form or another to private owners as envisioned with newly developed housing, but smaller allocations could create rent-restricted affordable units with managers of existing housing that have lower debt and management expenses. Grants in many markets of between $25-100,000 per unit could well create housing for the lowest income by the most efficient and timely means.

Federal Role: Same as *newly developed housing*. Significant expansion of HUD certified housing counselors, as agents to assess the eligibility of buildings and tenants, or to monitor compliance, would support this cost-efficient and effective means of using subsidies to create housing opportunities.
State & Local Role: Same as *newly developed housing*. Utilizing HUD certified housing counselors via delegate agencies could be organized at the state and local level and augmented by CDBG or HOME grants.

Michael C. Rohrbeck Phone: (312) 217-4211 E-Mail: MCRCareer@aol.com

Shared Housing

Shared housing has been a demonstrated success in some high cost areas with adequate programmatic grant support. A modified or alternative approach would be to pass through grants to owners, as described in the above *resource supported inclusionary housing* strategies perhaps through non-profits as administering intermediaries. This may be the most cost-efficient approach of all, as grants of $5-25,000 to owners of bigger homes may be adequate for owners who agree to housing low income residents that share the home and upkeep. It is likely that this approach would be feasible only with the shortest of timeframes, with bailout and payback provisions, and with unbureaucratic but enforceable agreements between owners and non-profit organizations.

Federal Role: Determine if amendments are needed to legislation or regs for related strategies, especially for CDBG and HOME program support. Encourage localities to utilize such options and fund delegate agencies to identify owners, tenants, eligible homes and monitor for program compliance.
State and Local Role: In areas where high development costs and subsidized "project" nimbyism are serious obstacles to affordable housing development, and where the market conditions are conducive, states and localities should research and experiment with this approach as a way to get a good share of units with the least cost, time and pain.

Debt Management and Streamlining Strategies

Smart and Streamlined Developments using Layered Financing

Development is just one means of creating affordable housing opportunities, and in most metro areas it is an increasingly costly strategy at that -- draining grant subsidies and capacities of states and localities to address housing needs in other ways.

When development is needed and accomplished in very low income/depressed market areas, these projects can be most successful and best streamlined for cost savings without private lender participation. In moderate income or higher income markets, tax credits can be used as one resource in tandem with private loans (targeting benefits to higher income "low income' people) and thereby saving desperately needed CDBG, HOME and local resources for dedication to programs serving the lowest income.

Federal Role: Encourage creativity on development financing methods.
State & Local Role: Examine prioritization of subsidy allocation away from most expensive projects, being more scrutinizing of development strategies when there is an adequate supply of housing; foster developments that save subsidy resources for other means and methods to create housing opportunities by non-development means.

Michael C. Rohrbeck Phone: (312) 217-4211 E-Mail: MCRCareer@aol.com